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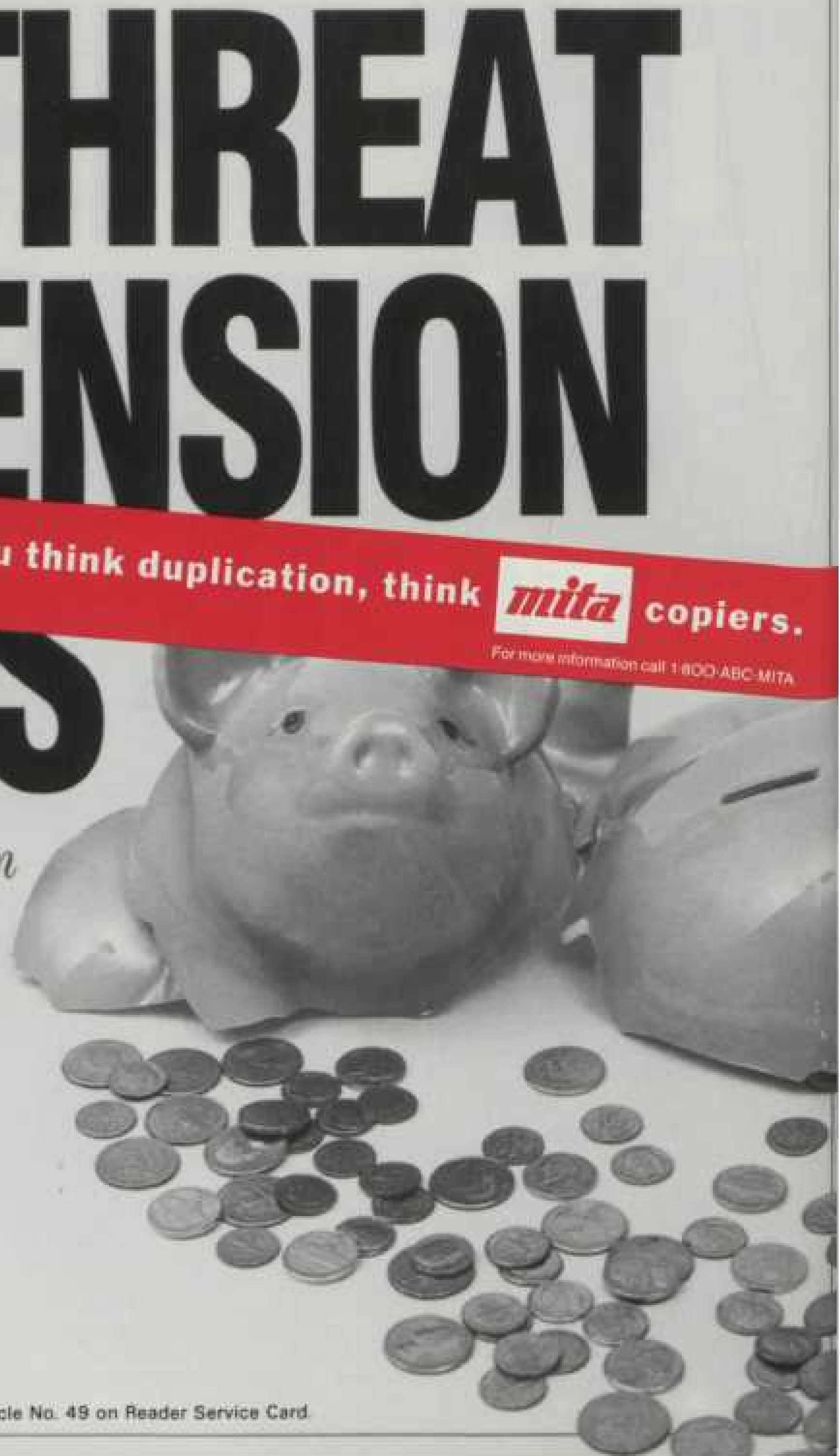

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Nation's Business
VOL. 79, NO. 3

PHOTO: T. MICHAEL KEZA

Virginia restaurateur *Ralph B. Evans felt Congress—by meddling—forced him to cancel his pension plan. Thousands of other employers have done the same, and many pensions are in jeopardy. Cover Story, Page 18.*

PHOTO: ©WESLEY HITT

Arkansas entrepreneur *Patti Upton and the sweet success of smell. Lessons Of Leadership, Page 57.*

Published by the U.S. Chamber of Commerce Washington, D.C.

Editor's Note

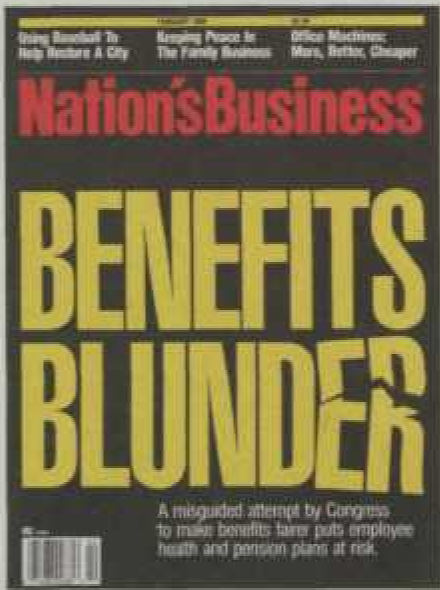
California pizza creators *Larry Flax and Richard Rosenfield left the law for the kitchen. Making It, Page 13.*

DEPARTMENTS

Cover Design: Hans A. Baum
Cover Photo: T. Michael Keza

Nation's Business (ISSN 0028-047X) is published monthly at 1615 H Street, N.W., Washington, D.C. 20062. Tel. (202) 463-5650 (editorial). Advertising sales headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 370-1440. Copyright © 1991 by the United States Chamber of Commerce. All rights reserved. Subscription prices (United States and possessions): one year, $22; two years, $35; three years, $46. For Canadian and other foreign subscriptions, add $20 per year. Printed in U.S.A. Second class postage paid at Washington, D.C., and additional mailing offices. **POSTMASTER**: Send address changes to Nation's Business, 4940 Nicholson Court, Kensington, Md. 20895. **To inquire about your subscription, or to make a change of address, please call 1-800-638-6582, or in Maryland, 1-800-352-1450. Photocopy Permission:** Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 21 Congress St., Salem, Mass. 01970, to photocopy any article herein for a flat fee of $1.50 per copy of each article. Send payment to the CCC. Copying without express permission of Nation's Business is prohibited. Address requests for bulk reprints to Nation's Business Reprints, 1615 H Street, N.W., Washington, D.C. 20062, or call (202) 463-5877. ISSN 0028-047X/2.50

Son Of Section 89



Our February 1989 cover, shown here, is connected to our cover story this month. Two years ago, Senior Editor Roger Thompson disclosed the impact that the newly implemented Section 89 of the federal tax code would have on businesses. His story detailed how the tax, regulatory, and other costs that the law imposed—supposedly to achieve fairness in health, life, and other nonpension benefits—would actually discourage employers from offering those benefits.

The net result for employees would not be fairness, the article pointed out, but the loss of the critical protection they enjoyed from the benefits provided by their employers.

Thompson's article was the first major business salvo in the battle that eventually ended in repeal of Section 89.

With this month's cover story, he turns to what is happening in the area that Section 89 did not cover—pensions—and finds a disturbingly similar situation. Private retirement systems are being inundated by confusing, complicated regulations, all proffered under the label of some noble purpose. Whatever their intent, they endanger the pension system that has become a part of the American social structure.

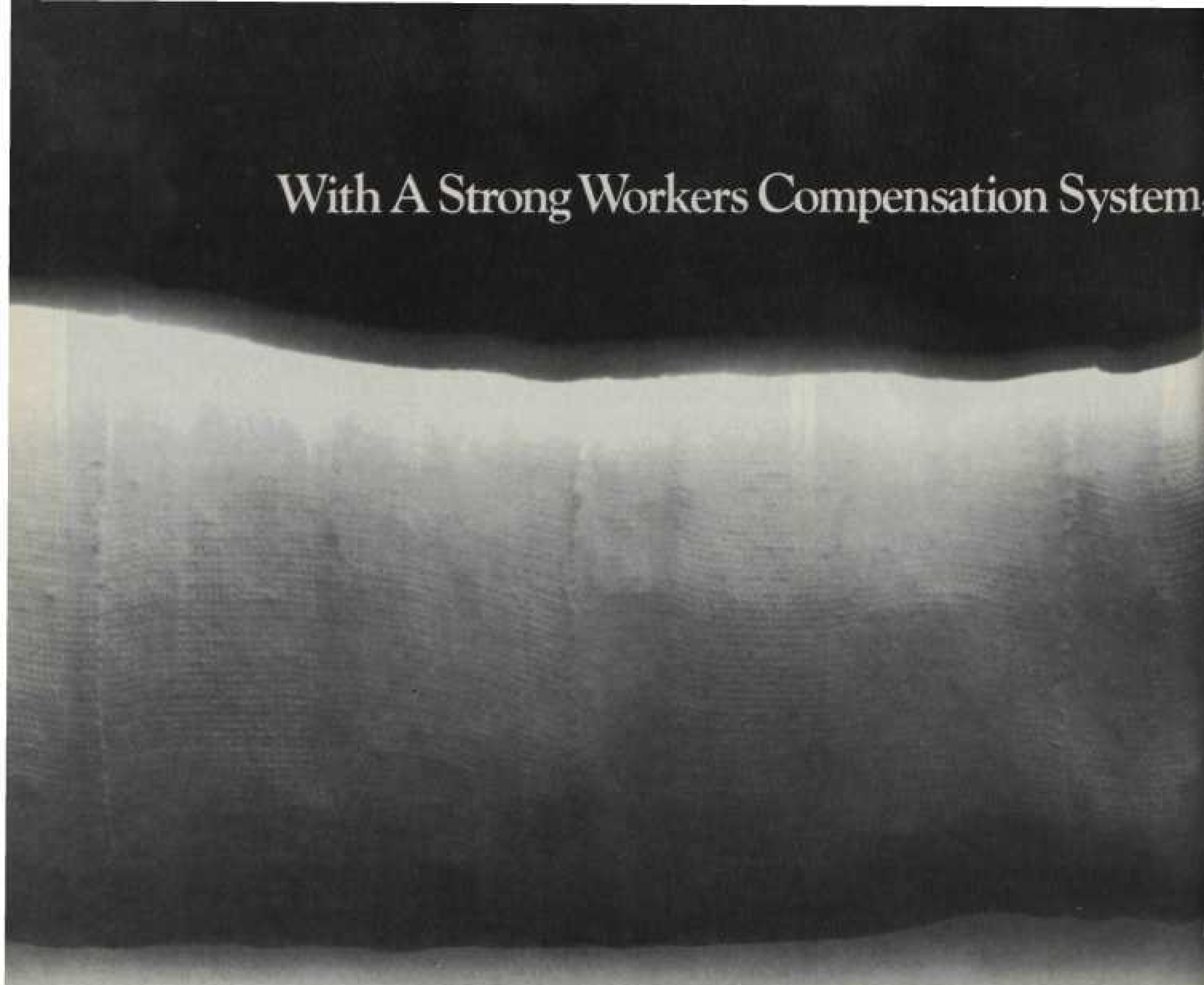
The article cites the view of pension experts that lawmakers' insistence on piling more complexity and expense on the administration of pension plans amounts to "a congressional death sentence for small-business pension plans." That echoes the complaints against Section 89—that it would force smaller employers overwhelmed by costs and complexities to abandon benefit plans rather than struggle with impenetrable regulations.

Frankly, you probably won't like the message in this month's cover story. But it's an important one for all employers, not only for what it tells you about what's happening to pensions but also for what it shows about the congressional viewpoint of fairness.

Robert T. Gray

Robert T. Gray
Editor

With A Strong Workers Compensation System,



Suffering an on-the-job injury that keeps someone away from work—and away from a paycheck—is difficult enough.

Waiting weeks, or even months, for fair income replacement is nothing short of inexcusable.

Which is exactly why the Workers Compensation System was created.

It's a system that, for 75 years, has been dedicated to getting injured workers their income benefits in a fast, no-fault, no-hassle way.

The Bad News

Unfortunately, there are problems with Workers Compensation in some states. Serious problems that are spreading to other states.

Unnecessary litigation and underfunded, understaffed, state-administered agencies are slowing down the entire process. On top of that, in some states minor injuries are over-compensated and major injuries are under-compensated.

The Good News

In some states, Workers Compensation works without a hitch. Workers are compensated quickly, and fairly.

But to bring that same quickness and fairness to the troubled states today, and to strengthen all systems for tomorrow, we have to promote change. A few examples:

Simpler procedures, better communication of rights and benefits, plus teamwork between doctors, employers and state regulatory agencies would do wonders for the individual systems.

So would agency-sponsored toll-free num-

Help Strengthen Workers Compensation

Injured Workers Don't Have To Rely On This.

bers for injured workers to inquire about their income benefits. And consumer brochures outlining specific workers' rights.

Ideally, alternative methods for resolving legitimate disputes should be adopted—short of going to court. This would allow for quicker resolution of those disputes and faster income benefits.

It's Up To All Of Us

To charge ahead and implement ideas like these, you can do one of two things to help.

One: Be aware. Find out what's happening in your state, how you're affected, and what you can do. Talk to your insurance company or business trade association.

Or two: Share your views by writing to Gary Countryman, President and CEO of Liberty Mutual, 175 Berkeley Street, Boston, MA 02117. We'll help you get in touch with people in your state who can help.

Workers Compensation is too valuable to neglect. It provides quality medical and rehabilitative care. Delivers income benefits with fairness and swiftness. And offers cost stability to employers.

Remember, Workers Compensation was designed to give American workers a solid system they could rely on.

Let's make sure they always can.

LIBERTY MUTUAL.

Because When A Worker Has An Accident, Everybody Gets Hurt.

Letters

There's A Way To Keep Stamp Costs From Rising

As a U.S. Postal Service worker, I am strongly opposed to breaking up the service.

I am also against raising the price of stamps.

To prevent such cost increases, the Postal Service could do away with Saturday delivery, saving about $4 billion a year.

PHOTO: U.S. POSTAL SERVICE

It would need only five people instead of six for every five routes. The base salaries of the extra workers, the holidays, and overtime would all make for considerable savings. You can add to that the savings on fuel costs, maintenance, and utilities.

Lawrence J. Villere
Metairie, La.

Money Talks, But So Would Reform

Let's hope that your fine editorial in January ["The Same Old Faces Should Not Mean The Same Old Policies In Congress"] is right in stating that congressional incumbency is not a permanent guarantee of a seat.

From my 32 years in advertising, I can tell you that having a spending advantage of 2 or 5 or 10 to 1, free mailings to the value of $200,000 per year in the House and often millions in the Senate, and large paid staffs for constituent help can effectively lock out virtually all challengers.

Without federal campaign-finance reform and/or congressional term limitations, emerging groups such as women are blocked from the leadership process in Washington.

George A. Dean
Southport, Conn.

Telecommuting Can Open Doors For The Deaf

"Travel-Free Commuting" [December] failed to take advantage of the important opportunity to include deaf people in the group of successful telecommuters.

The article includes two photographs of a successful deaf telecommuter, David Michalowski. He is a talented art director who also is a full and unhindered participant in his company's business because his telecommuting eliminates several features of conventional workplaces, such as telephones, that often hinder deaf people in their careers.

In light of the recent passage of the Americans with Disabilities Act, your article could have educated readers everywhere about the advantages of using telecommuting as a way to accommodate disabled employees.

Marcia B. Dugan, Director
Division of Public Affairs
National Technical Institute for the Deaf
Rochester Institute of Technology
Rochester, N.Y.

More Opportunities In Environmental Cleanup

"From The Ground Up" [January] cited numerous examples of cleanup opportunities associated with Superfund and the Clean Air Act, but there was no word about how companies are making profits while cleaning up our nation's soil and ground water because of the Underground Storage Tank (UST) regulations. The EPA estimates that there are up to 7 million USTs in this nation, and one-third could be leaking toxic chemicals.

Many fledgling firms are literally cleaning up on this regulatory-driven market opportunity.

Our company, for example, is supplying an alternative to the risks of USTs with an economical, safe, and environmentally sound above-ground storage vault for petroleum products.

Philip C. Craver
EcoVault Corp.
Vienna, Va.

[Editor's Note: The January story did mention the entrepreneurial possibilities in USTs.]

The Ins And Outs Of Exporting

In light of the current domestic economic climate, "Reach New Markets" [De-

cember] is especially timely. American companies, particularly midsized and smaller firms, have to understand that exporting bolsters sales and profits and, for some companies, can mean the difference between survival and its unfortunate alternative.

Our publication, *The American Export Register*, lists more than 40,000 American exporters and the products and services they are sending abroad. Circulated in 170 countries, it has been successfully aiding American business in pursuit of sales overseas since 1948.

Colby Coates, Publisher
American Export Register
New York, N.Y.

ILLUSTRATION: TOM SMOREK/JOHN CAPUSO

Family Businesses Are Smart To Look To Women

Sharon Nelton's January commentary, "A Good Time To Be A Woman," in the Family Business section, rightly pointed out that women are important assets to a family business.

Although many times women get to the top by succeeding to leadership in family firms, it is good that some fathers are willing to pass their businesses down to their daughters. After all, women can manage a company as well as, if not better than, men.

Nelton states that "the family businesses smart enough to welcome women and move them up stand to gain from their contributions."

Today's businesses want managers who will listen to what their customers are saying, which is something women have been taught by their mothers.

Finally, women are becoming more important to the business world, and I, as a woman, am very proud to see the change.

Dianna Plestis
Kirtland Hills, Ohio

Unions Ought To Think About Nonunion Workers

I am tired of hearing about how poorly our unions are being treated. It's time unions considered the nonunion worker. Unions are forcing higher prices for products that people who are not able to belong to a union need to purchase.

I also hear union members say that "all we want is a fair wage" when in reality they want more (much more in most cases than nonunion workers are paid for the same work).

Unions have a place in our system, but it is important for union members to realize that rarely do their employers pay for their raises; the costs of raises are passed on to the end customer in order to make a profit.

More often than not, the customer will be a nonunion member who can hardly afford it.

Keith Leenheer
Hudsonville, Mich.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

ENTREPRENEUR'S NOTEBOOK

Find The Seam, Make Your Shot

By M.L. Carr

Being an entrepreneur isn't always so different from being an athlete; in order to win the game, you need to make the most of your opportunities.

In basketball, it means hitting the open jumper, exploiting a seam in the defense to drive the lane, or, sometimes, sitting on the end of the bench, waving a towel to get the crowd going.

In business, you take what is out there—what the other team gives you. If you can find your niche—the seam in the defense—there's no telling how many points you'll score.

Most people know me from my playing days—with the Detroit Pistons from 1976 to '79 and then with the Boston Celtics until 1985. Although I picked up my share of points and rebounds, it may have been my antics from the bench that drew most of the attention.

PHOTO: ©STEVE LIPOFSKY

As in sports . . .

PHOTO: ©RICK FRIEDMAN—BLACK STAR

. . . so too in business: M.L. Carr.

You might think it was a gimmick, but I saw it as an opportunity. If I got the Boston Garden crowd going, it would pick up the team and give us an edge; if I occupied the opposing crowd, they'd focus on me rather than on distracting Larry Bird. Anything that could help the Celtics—on the court or the bench—was a distinct opportunity; Larry's points were money in my bank.

Business is the same way; the window of opportunity only opens periodically. If the timing and conditions are right—and opportunity doesn't always knock at the right time—you either make a strong move or you pass it up.

It's like a 1957 Chevy; it is an incredible classic car, but it isn't coming back, and the chance to get one at the original retail price is long gone.

When I retired from basketball in 1985, sports created my first opportunities. M.L. Carr Enterprises remains the company that handles my promotional/motivational speaking engagements. Carr Corp., my second venture, distributes janitorial supplies, such as paper, cleaning products, and floor waxes. In many ways, it fills a niche created by rules that require government contractors to give a percentage of their business to minority-owned vendors.

Those rules may open doors, but they won't win the game; to make our shots count, we must provide quality products and service. With that in mind, we don't sell the minority-ownership factor; we sell our service and price competitiveness. Our opportunity—our seam—may come from the fact that a firm wants to buy 10 percent of its cleaning supplies from a minority vendor, but once we're in, we'll pursue 100 percent of that business and won't be happy until we succeed.

For example, we were a bit player when we started working with Digital Equipment Corp. When we saved a tremendous amount of money for the company on its acquisition and inventory costs for cleaning supplies, however, we became a lead candidate for Digital's business strictly because of our abilities. That, to me, is making the most of an opportunity.

Of course, an opportunity can pop up in the most unexpected way. My latest venture is proof of that. I was at the Celtics' office one day and had let time slip away. The problem was that I was supposed to attend a surprise party and had promised my wife I would pick up our gift on the way. I had to think of something fast. I asked Jan Volk, the Celtics' general manager, for a blank contract—the standard agreement for players in the National Basketball Association—and I signed my friend to a $10 million "deal." I voided the contract on the back.

My friend loved it. There he was, on his 40th birthday, making more than Larry Bird; all during the party, he and his friends couldn't stop talking about it.

And Sports Fantasy Contracts Inc. was born.

Here was a terrific opportunity: Carr Corp. had established itself, so I felt comfortable diverting some of my attention; my sports connections could help me get licensing agreements from the major professional leagues to use their standard contract forms (voided, of course) in my venture; and big-money contract signings were everywhere in the news. What sports fan wouldn't want to see his or her name on a multimillion-dollar professional contract?

In 1990, our first year of business, we sold more than 8,000 contracts through phone orders and a home-shopping service on TV. The contracts sell for $30 to $45 apiece framed or in a portfolio. Customized versions cost more. Our marketing plans could boost sales significantly this year.

As our efforts with Sports Fantasy Contracts have shown, opportunity can spring from friendships or business relationships, from market conditions, government regulations, and, perhaps most important, from hard work. Entrepreneurship can bring dark days and difficult times—when the shots just won't drop for you—but that doesn't mean you stop shooting. Play the game, look for the position, and when you get the chance to handle the ball, you'll put points on the board. ■

M.L. Carr, whose diverse enterprises are based in Natick, Mass., prepared this account with Contributing Editor Charles A. Jaffe.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

Managing Your Small Business

Wages and fines head upward; a push to cut payroll taxes; help in choosing software that meets your needs.

By Bradford McKee

ADVERTISING

High Visibility

Roger Valentino sensed he had potential customers in high places. His company is Associated Office Products Inc., in Upper Marlboro, Md., and about 70 percent of its customers are in office buildings in downtown Washington, D.C. So "to get as much exposure as possible," Valentino says, he had the firm's name and phone number emblazoned on the roof of each of the firm's trucks. The bird's-eye advertisement reminds high-rise customers that they need office supplies, he says. It costs no more than driving around downtown, and "the visibility helps us tremendously." ■

PHOTO: T. MICHAEL KEZA

WAGES AND FINES

Minimum Wage, OSHA Fines Set To Rise

The federal minimum wage will rise to $4.25 from $3.80 an hour on April 1.

The increase completes a two-step wage hike enacted in 1989. The first step took the minimum wage from $3.35 to $3.80.

Experience since the first increase has borne out the warning of small-business employers that forcing the wage up would curtail job opportunities, particularly for minority youths.

Under another change in law affecting business, civil penalties for violations of the Occupational Safety and Health Act will go up sharply March 1. The new penalties will apply to violations discovered after March 1.

The maximum civil penalties go up sevenfold: $70,000 for each willful or repeated violation, $7,000 for each serious or "other-than-serious" violation, $7,000 for each violation of posting requirements, and $7,000 for each day beyond the government-specified date for correcting a violation. ■

TAXES

Small Business Presses For Payroll-Tax Cut

Small business is providing strong support for efforts in Congress to cut the Social Security payroll tax this year.

Proposals are pending in both houses for the tax reduction, which has long been a major legislative goal of small business. Reduction proposals have attracted broad support because they would stimulate the economy.

Legislation sponsored by Sen. Daniel Patrick Moynihan, D-N.Y., and Rep. Frank J. Guarini, D-N.J., would cut the combined employer-employee tax from 12.4 percent to 10.4 percent over five years. It also would raise wages subject to the Social Security tax—now $53,400—to $82,200 in the same period.

Bills introduced by Sen. Malcolm Wallop, R-Wyo., and Rep. Tom DeLay, R-Texas, would reduce the combined tax rate to 10.6 percent as of July 1, 1991. Their bills would not affect the wage base.

None of these bills would change the combined 2.9-percent tax rate for Medicare, which applies this year to wages up to $125,000.

Employers Could Face Unemployment-Tax Hikes

Rising joblessness is expected to fuel congressional efforts to raise the federal tax that finances administration of the unemployment-compensation system.

The federal tax rate is 6.2 percent on the first $7,000 in annual wages. Employers are eligible for a federal tax credit of up to 5.4 percent on the unemployment taxes that they pay to their respective states.

The taxes paid to the states finance payment of the actual benefits to workers, and some states with dwindling funds are also considering tax hikes. ■

ACCOUNTING

Finding The System That Fits Your Firm

When you are looking for an accounting system for your firm, you want to make sure you don't waste money on a product that doesn't suit your needs. Now there's a new resource to help you choose the best accounting packages for your business.

Charles Chewning, president of Solutions Inc., a consulting firm in Richmond, Va., says that "50 percent of all companies make the wrong choice." Chewning is offering a discounted telephone version of his Accounting Library, a $479 personal-computer database that determines the suitability of software for a company. The telephone version costs $150 (payable by MasterCard or VISA) and works this way:

When you call, you are asked 50 questions on your accounting needs and price limits. Solutions Inc. compares your needs against its database of more than 70 accounting programs for DOS, Macintosh, or Unix operating systems.

Solutions Inc. then sends you a summary sheet with detailed reports of the six products that best match your particular needs and a booklet to help you interpret the reports. In all, Solutions Inc. sends you 125 pages of reports, suggestions, and timely advice. In addition, your name will be passed on to the top six vendors, who will send you marketing information on their products.

To use the service, or for more information, call (800) 732-1218 toll-free; or, (804) 794-3100. ■

NB TIPS

✓ National Employee Health and Fitness Day, designed to spotlight low-cost ways for companies to encourage fitness among workers, will be held May 15 this year. For more information, contact the National Association of Governors' Councils on Physical Fitness and Sports, 201 S. Capitol Ave., Suite 440, Indianapolis, Ind. 46225; (317) 237-5630.

✓ Last month's NB Tips omitted the price of $15 plus $2.50 for postage and handling for "The Master Measurement Model of Employee Performance," available from the Society of Incentive Travel Executives Foundation, 21 W. 38th St., New York, N.Y. 10018. NB

Dateline: Washington

Business news in brief from the nation's capital.

THE GULF WAR

High-Tech Weapons Prove Critics Wrong, Cheney Says

PHOTO: T. MICHAEL KEZA

Defense Secretary *Cheney reported on Gulf war to U.S. Chamber board.*

The highly successful performance of American technology is "one of the great lessons" of Desert Storm, says Defense Secretary Dick Cheney.

In a speech to the board of directors of the U.S. Chamber of Commerce, the secretary noted that every high-tech weapon now performing so successfully in the Gulf War "was targeted early on by critics who said that the Defense Department and the military services did not know what they were doing."

Cheney recalled early allegations that the Tomahawk missile being used so effectively "would never achieve the degree of accuracy" claimed for it. One senator alleged that deployment of the Tomahawk system would be "dangerous and just plain dumb," the secretary said.

While praising the effectiveness of the aircraft and weapons systems in action in the Gulf, Cheney also noted that the "young men and women [in the U.S. forces] remain our most important military assets."

Cheney's report on the Gulf war to the Chamber board marked his first public comments on the conflict after his return from a trip to the war zone, where he conferred with military commanders.

In addition to a direct summary of the war situation, Cheney responded to questions from the board members during the nationally televised appearance.

In introducing Cheney, James Baker, chairman of the Chamber, noted that the business community "is overwhelmingly behind President Bush's policies and is resolved to do all it can to help them succeed." Baker said those policies "deserve the unreserved backing of every American."

Referring to Cheney, Baker commented that the nation is "most fortunate to have this man in this job at this time." ■

FINANCE

PHOTO: T. MICHAEL KEZA

Treasury Secretary *Brady's audience at U.S. Chamber board meeting included, from left, Chamber President Richard L. Lesher, Chairman James K. Baker, Group Vice President Richard L. Breault, and Sara Hillenbrand, a Brady assistant.*

Brady Seeks Support For Plan To Overhaul Bank Laws

Bush administration proposals for overhaul of the nation's banking system present Congress with a highly complex challenge. Among other things, the massive proposal would permit banks to affiliate with securities and insurance firms and to open branches nationwide. Current levels of deposit insurance would be reduced.

Despite the challenge that reforming the system poses, Treasury Secretary Nicholas F. Brady told the board of the U.S. Chamber of Commerce he believes Congress will push ahead with reform because the need is so great.

The business federation's board did not take a position on the sweeping plan for massive changes in banking law.

In presenting his case, Brady said that U.S. banks are restricted in ways that foreign banks are not, putting the U.S. banks at a competitive disadvantage. In 1969, nine of the world's largest banks, based on the amount of deposits, were U.S.-owned, he noted. By 1989, only one U.S. bank was in the top 30.

Brady said he did not believe the administration's proposals would hurt smaller banks but rather that those banks would be among the first to benefit from reforms.

On another subject, Brady said the administration's strategy for achieving a capital-gains tax cut was first to "get some sense into numbers." He said the wide gap between the administration's estimates of a cut's positive effects on federal revenues and Congress' projection of negative effects had to be sorted out before headway could be made on Capitol Hill. That, he said, is why the president named Federal Reserve Chairman Alan Greenspan to head a study of the effects of a cut. NB

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Designer Pizza At Off-The-Rack Prices

Larry Flax and Richard Rosenfield met 20 years ago, when both worked as federal prosecutors in Los Angeles. In 1973, they left the government to go into private practice together, defending mob bosses and union officials against criminal charges. It was lucrative work, but, Rosenfield says, it was ultimately frustrating—because most of their clients were guilty. "The government's conviction rate was something like 95 percent," he recalls.

In 1985, Flax and Rosenfield set the law aside to enter a field that had appealed to them for years, but where the odds against them were almost as daunting: They opened a restaurant in Beverly Hills. They have since opened 15 more, scattered across the country from Honolulu to Atlanta, and so far their success rate beats the government's. All of their restaurants are thriving, and this year Flax and Rosenfield will open seven more.

Flax, 48, and Rosenfield, 45, are the founders of the California Pizza Kitchen chain—restaurants that offer what one reviewer calls "a trendy menu of pasta and designer pizzas," in a bright, cheerful setting dominated by an open, wood-burning kitchen and decorated in black, yellow, and white tiles. The service is courteous and efficient, the food arrives quickly, and the tab typically hovers between $10 and $11 per person.

"We're in a niche where there are not many players," Rosenfield says. "We're not fast food, and we're definitely not white tablecloth—but our clientele is a white-tablecloth clientele." In other words, CPK targets diners who have demanding standards where food is concerned but who don't want to contend with the formality of fine restaurants every time they eat out.

"There aren't many players in that market," Rosenfield says, "but those that are there are doing very, very well."

Including, beyond a doubt, CPK. Its revenues rose from $15 million in fiscal 1989 to $22 million in 1990, with $35 million likely in the fiscal year that ends in June. Average annual sales per restaurant are now $3 million, and none—not even the first one, which opened on South Beverly Drive in March 1985—has yet hit a sales plateau. Even in Southern California, where nine of its restaurants are located, CPK can open new restaurants with no fear of cannibalizing its old ones.

PHOTO: ©SCOTT GOLDSMITH

California Pizza Kitchen *founders Larry Flax, left, and Rick Rosenfield started their thriving chain with this Beverly Hills restaurant.*

The "designer pizza" is, of course, the heart of the matter, and it is in putting together their pizza menu that Flax and Rosenfield have shown the subtlest understanding of their target audience.

Superficially, the CPK pizzas resemble the "California pizzas" that celebrity chefs Wolfgang Puck and Alice Waters made a part of fine dining on the West Coast in the early '80s; Flax and Rosenfield acknowledge their debt to Puck, in particular. Like its models, CPK tops the pizza dough with unfamiliar ingredients, often in surprising combinations. There is, for instance, barbecue chicken pizza (with sliced red onion, cilantro, and smoked gouda cheese), and there is Thai chicken pizza (with chicken marinated in a peanut sauce, bean sprouts, and roast peanuts). But there is an important difference.

"If you go to Spago today," Flax says, referring to Puck's famous West Hollywood restaurant, "you'll find on his menu some very interesting pizzas. You want to taste them, but you can't imagine what they're going to taste like until you get them."

At CPK, on the other hand, "we try very hard to make a pizza that you can taste when you see it on the menu. We want you to taste the barbecue chicken pizza in your head before you even order it."

That is true of even the most exotic-sounding pizzas. The Thai pizza, Flax says, is basically an attempt to get peanut butter on a pizza.

CPK thus offers to diners the gustatory equivalent of the jungle cruise at Dis-

neyland: a perfectly safe adventure. And, as at Disneyland, the crowds keep coming back for more.

So much so, Flax says, that now "our landlords are treating us as an attraction restaurant." All but three CPK restaurants are in malls in affluent neighborhoods, but, Flax says, "people don't eat at California Pizza Kitchen just because they happen to be at a mall. They come to the mall to eat at California Pizza Kitchen."

In a weak economy, with commercial real estate on the ropes, such an "attraction" is irresistible to many developers. Says Rosenfield: "We are now so sought-after by developers that they are literally doing turnkey deals for us. In the seven restaurants that we've signed leases for, we have something like $6 million in contributions by the landlords. The units are instantly profitable."

In fact, Rosenfield says, the restaurants have always been profitable—even though, for its first few years, the company wasn't. That was because Flax and Rosenfield were building up a management infrastructure that could support the large chain they had in mind from the day they opened their first restaurant.

"If we saw something slipping," Rosenfield says, "we would put more management in, we would spend more money, not less money."

To finance that infrastructure, Flax and Rosenfield sold private placements of stock; they now own 60 percent of CPK, compared with the 92 percent they owned when they started. But that 60 percent is of course worth many millions of dollars—and, because Flax and Rosenfield expanded through equity financing, CPK has less than $1 million in debt, and it has a cash flow more than adequate to finance rapid growth. CPK franchised one restaurant in Las Vegas and started three others as joint ventures (two, in Chicago, with Rosenfield's brother), but the company is unlikely to use either method again.

Flax and Rosenfield do plan to take their company public within the next few years, even though they don't need to do that to raise capital. "It's a very tempting public concept," Rosenfield says. "California Pizza Kitchen is one of those unique businesses that people walk into and want to own a piece of."

Neither man plans to use going public as the occasion for cashing out of CPK. Says Flax: "It would kill me to sell now for $100 million and sit on the sidelines and watch somebody else either destroy it or do great with it."

—Michael Barrier

How He Puts Flesh On the Bones Of A Corporation's History

As a youngster growing up in Rock Island, Ill., Bruce Weindruch had no desire to become an entrepreneur, even though his grandfather had built a successful chain of grocery stores. Weindruch wanted an academic career.

But a course in business history at Grinnell College, in Iowa, where he majored in American civilization, helped change his mind. A few years later, while Weindruch was developing outreach programs for schools at the Smithsonian Institution's National Portrait Gallery, he decided to parlay his love for business history into a business venture.

PHOTO: EMANUELLO PAGANELLI—WOODFIN CAMP

Bruce Weindruch's *mission is to help corporations turn history into dollars.*

Fascinated by the photographs, memos, old annual reports, and other memorabilia that lie buried in corporate basements, warehouses, and file rooms, Weindruch set out in 1979 to help companies dig up, preserve, and actually use their historical documents. He maintained that when a company was aware of its history, that awareness could help it plan for the future, sharpen its corporate image, establish advertising themes, and learn from the past.

Today his firm, The History Factory, in Washington, D.C., counts among its clients Fleet/Norstar Financial Group, the Boeing Co., Sara Lee Corp., and the Fireman's Fund Insurance Corp.

"There's usually a memory jogger, some upcoming event, that causes them to come to us," says Weindruch, 37. "It could be a merger, a divestiture, a move, a new product, or an anniversary."

The History Factory collects and organizes historical information for about 60 companies, nonprofit organizations, and trade groups, storing it in state-of-the-art archive rooms, and indexing it in a computerized database. Customers use the files in strategic planning, public relations, research and development, litigation, and brand management.

Take Fleet/Norstar, which was created by the merger of two banks in 1988. The History Factory's employees scoured thousands of bank documents and uncovered a common thread that linked what appeared to be two distinct banks, one from Providence, R.I., and the other from Albany, N.Y. They found an old photograph of an 18th-century portrait of a Fleet merchant-banking apprentice, and further research showed that the apprentice eventually left Fleet to found the bank that became Norstar—something that neither company was aware of. Suddenly, the merger seemed to make even more sense.

"The traditional archivist," Weindruch says, "used to arrange the information as it came in. We take these materials and make them relevant to the organizational structure of a company today. What differentiates us from other historians is that we're business people."

Because The History Factory also creates corporate museum installations and video productions, Weindruch thinks its annual sales can grow from the current $2 million to as much as $30 million.

"The better I run companies' archives, the more products I can sell them," he says. "That's our objective. If we can't make this stuff useful to them, they're not going to preserve it."

The History Factory now charges clients $40,000 to $70,000 to create a corporate archive, which typically consists of about 5,000 files. Videos cost from $20,000 to $150,000, and museum installations from $185,000 to $200,000.

So far, Weindruch, The History Factory's sole owner, has his field pretty much to himself. He says The History Factory really competes only with independent consultants and archivists.

"Right now," he says, "I'm doing what Professor Joseph Frazier Wall, who interested me in business history at Grinnell College, did for Andrew Carnegie. He wrote a book about Carnegie that made him come to life. That's what I'm doing for companies."

—Desiree French

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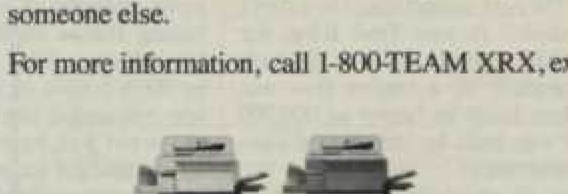

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A Man Who Sees No Limits On The South Dakota Prairie

Travelers on Interstate 90 know Mitchell, S.D., as the home of the Corn Palace—an extravagantly advertised civic auditorium whose exterior walls bear designs made from multicolored dried corn.

Mitchell's most striking feature, however, is an extraordinarily diverse cluster of businesses, all owned by a man who refuses to be hemmed in by a lack of expertise. "I don't think business is complicated," Gordon Thomsen says, and he lives what he believes.

At the center of his empire is Trail King Industries, the country's largest manufacturer of specialty trailers, with around $40 million in annual sales. Thomsen says of the major trailer manufacturers: "We do everything they don't want to touch." It was Trail King, for instance, that recently built a 188-foot, 112-tire monster of a trailer that can accommodate loads as heavy as 600,000 pounds (it was built to carry huge electrical transformers).

Thomsen, 63, started making trailers in 1978. He had been selling them for many years, so he entered the field with a base of knowledge. Such has not been the case with some of his other ventures. In 1980, for instance, he started his own advertising agency, because he didn't like what the agencies he hired were coming up with. Thomsen also owns an offshoot of the ad agency: a silk-screening operation that produces T-shirts, caps, and the like.

In 1984 he bought a Mitchell radio station, KMIT, out of bankruptcy, and he switched its format from rock to country and western. He spent $118,000 to revamp the station; it's now a 24-hour, 100,000-watt operation with a strikingly professional big-city sound.

"Our disc jockeys now get as much as Minneapolis disc jockeys," Thomsen says. "When I went in, I went in right. When we bought equipment, we bought the best equipment there was to buy. If you don't do things right, you'll always wish you did."

If there is a single secret to Thomsen's success, it may be his belief in "doing things right." In the early '80s, for instance, Trail King barely scraped by for a couple of years, because Thomsen responded to the recession of those years not just by cutting prices but also by spending a lot of money to advertise.

"The groundwork we laid in the early '80s is why we're successful today," he says. "The financial people might have thought it was a close call, but I didn't think it was. I thought what we were doing was great."

There is something else, too. Even though Thomsen firmly announces his ignorance—"I'll be the first to tell you, I know nothing about engineering"—it's clear, on just a brief tour of the two Trail King plants, that he is intimately familiar with his plants and their products. His limited knowledge of a field will not deter him from entering it; but once he decides to go into a business, he learns a lot, fast.

Not long ago, for example, Thomsen was expounding on some of the products offered for sale by the newest of his businesses, one that opened last spring: "This is an artist who has things in Buckingham Palace; he's from Vienna. I've got nine of his lithos."

This business is a gift shop, The Tumbleweed—and, true to form, it's a dazzler filled not just with expensive lithographs but also with jewelry cases (72 feet of them) and fine china, along with many other things. "There's nothing like it between Chicago and Los Angeles," Thomsen says. "We're going to bring 'em in from Sioux Falls and all over."

Thomsen manages his empire without even living in Mitchell a good part of the year; he spends his winters in Tucson, Ariz. "I don't run things hands on," he says. "I've got people running everything." But those people know what he wants.

True, The Tumbleweed was requiring a little more of his time recently than the other businesses, but he was sure that would last only until he had "educated" the staff: "Once I get them to think the way I want them to think, we'll be all right."

—*Michael Barrier*

PHOTO: T. MICHAEL KEZA

If you need a trailer *for a special purpose, Gordon Thomsen's Trail King Industries, in Mitchell, S.D., probably makes it. But trailers are only one part of Thomsen's business empire.*

COVER STORY

The Threat To Pension Plans

By Roger Thompson

PHOTO: T. MICHAEL KEZA

Restaurateur *Ralph Evans says excessive federal regulations forced him to end his firm's pension plan.*

Ralph Evans didn't want to cancel the pension plan covering himself and key employees at his McLean, Va., restaurant. But in the end, he felt that Congress had taken the decision out of his hands. "It's a classic case of government intervention," Evans fumes. "It took a thing that was benefiting the employees and screwed it up. The rules got so oppressive that I couldn't afford it."

Like Evans, more than 30,000 other employers—most of them owners of small firms—also have pulled the plug on their pension plans over the past three years—and most for reasons similar to Evans'. Last year, in fact, more pension plans were killed than were started—a dramatic reversal of the historic expansion of the nation's voluntary, employer-sponsored pension system. (See the chart on Page 21.)

Even before the number of plans began to shrink, the percentage of workers actually covered by pension plans had peaked and had begun a steady decline, from 48.3 percent in 1979 to 43.2 percent in 1988, the latest figures available. At companies with fewer than 100 workers, coverage levels fell from 21.3 percent to 18.5 percent over the same period. Recent data indicate that the downward trend continues.

Says former Illinois Rep. John Erlenborn, architect of the landmark 1974 revision of the nation's pension law, the Employee Retirement Income Security Act (ERISA): "Over the past decade, the law has gotten so damned complicated that neither the regulated nor the regulators understand it."

After making only minor adjustments to ERISA during the 1970s, Congress in the 1980s enacted 10 major changes, adding 80 pages of pension laws to the statute books and spawning 560 pages of new Internal Revenue Service regulations. "That's one measure of the complexity added in the last decade," says Howard Weizmann, executive director of the Association of Private Pension and Welfare Plans, a Washington trade group.

As a result, compliance costs skyrocketed. When adjusted for inflation, the cost of administering a traditional defined-benefit plan nearly tripled from 1981 to 1991 for small as well as large companies, according to a recent Hay/Huggins Co. Inc. study for the Pension Benefit Guaranty Corp. The increase was far greater for small firms, however, because they pay disproportionately more per employee for pension plans than large companies pay. The average cost for a company with 10,000 workers went from \$19.44 per employee in 1981 to \$53.64 this year, while the cost per employee for a plan covering 15 workers zoomed from \$161.93 to \$455.45. (See the chart on Page 21.)

Pension experts say that the pace of change, its complexity, and added costs amount to a congressional death sentence for small-business pension plans, especially defined-benefit plans.

For decades, defined-benefit plans have been the backbone of the nation's private retirement system. Under these plans, retirees receive a guaranteed payment, generally based on years of service and level of compensation. In most cases, employers assume full responsibility for funding these plans.

As an alternative, many small em-

Congress has made pension plans too costly for many small firms. Maybe it's time to start over with a simpler, fairer system.

ployers have set up defined-contribution plans, which do not guarantee a specific pension. Retirement income depends entirely upon how much the account amasses over time. Various types of plans are classified as defined-contribution, including profit sharing, employee stock ownership, and 401(k) savings plans. These plans, named for Section 401(k) of the tax code, allow employees to build tax-exempt savings accounts using payroll deductions. Employers frequently contribute to these employee 401(k) plans.

Defined-contribution plans have great appeal for small companies because they are less complex and roughly half as expensive to administer as defined-benefit plans. (See the chart at right.) Among small employers, defined-contribution plans are more prevalent, by a 3-to-1 margin.

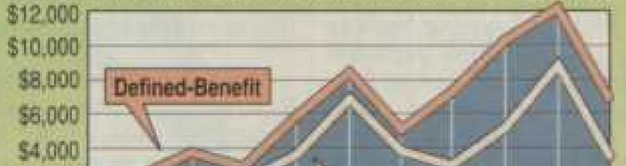
Despite the growing popularity of defined-contribution plans, especially 401(k) arrangements, most pension-plan experts regard the defined-benefit plan as more effective in delivering retirement income. This is especially true for small-business owners, many of whom are middle-aged at the time they establish a company plan.

Sam Gilbert, president of United Plan Administrators, in Westlake, Calif., says that the typical small-business client who comes in to establish a pension plan is 40 to 50 years old, employs several people, and has been in business for 10 or more years. It has taken that long for the business to become stable and profitable. Through the formative years of the company, the owner has not been able to save for retirement. Money available for benefits went first to health, life, and workers' compensation insurance.

At this point, says Gilbert, a defined-benefit plan is the only type that will allow the owner to make up for years of missed savings because it permits more money to be put away each year than other plans. Defined-contribution plans cap annual contributions per individual at $30,000. But contributions under a defined-benefit plan can go to $100,000

Total Administrative Costs For Plans Covering 15 Employees

(Comparison Of Defined-Benefit And Defined-Contribution Plans)



Annual Costs Of 15-Employee Defined-Contribution Plan

Year	In House	Actuary	Attorney	Total	One-Time Costs In Total*
1981	$164	$1,469	$78	$1,712	$0
1982	164	1,511	83	1,758	0
1983	167	1,765	220	2,152	296
1984	172	1,804	139	2,115	161
1985	622	2,306	721	3,649	1,497
1986	670	4,041	2,236	6,946	4,648
1987	364	3,013	483	3,861	1,109
1988	262	2,454	161	2,877	0
1989	480	4,166	527	5,173	2,017
1990	810	5,296	2,675	8,781	5,499
1991	312	2,918	182	3,412	0

Annual Costs Of 15-Employee Defined-Benefit Plan

Year	In House	Actuary	Attorney	PBGC Premium†	Total	One-Time Costs In Total*
1981	$104	$2,105	$161	$59	$2,429	$0
1982	105	2,164	165	55	2,489	0
1983	146	3,192	438	53	3,830	1,200
1984	126	2,652	231	52	3,061	162
1985	612	4,027	1,296	59	5,994	2,722
1986	623	5,284	2,383	191	8,480	4,648
1987	230	4,015	637	184	5,065	1,052
1988	382	6,172	322	333	7,210	1,348
1989	639	8,647	695	318	10,298	3,953
1990	805	8,122	2,851	304	12,082	5,499
1991	310	5,864	366	291	6,830	0

Annual costs in 1990 dollars

* One-time costs required to bring the plan into compliance with new provisions of the law.

†Insurance premium paid to the Pension Benefit Guaranty Corp.

Source: Pension Benefit Guaranty Corp.

CHART: MARCY MULLINS

or higher, subject to various limitations established in the 1980s—limitations that Gilbert finds overly restrictive.

"Does an owner in this situation deserve to be able to put away a lot of money for his retirement?" asks Gilbert. "You bet! There is nothing in the world wrong with that—except that it violates the pension laws."

Chief among the laws that pension administrators find most destructive of small-business plans are those that have the following effects:

The law has gotten so complicated that neither the regulated nor the regulators understand it.

—John Erlenborn

A sharp reduction in income limits. Under provisions of a 1982 tax law, the maximum annual income that a retiree could receive from a defined-benefit pension plan plummeted by one-third, from $136,425 to $90,000. This figure is indexed for inflation and is $108,963 for 1991. In lowering benefits for the highly paid, Congress increased revenue by restricting the flow of tax-exempt dollars into retirement plans. The impact of that change hit small-business owners particularly hard for several reasons.

Executives in big companies frequently receive sizable retirement benefits in addition to their company's pension plan. These include stock options and life-insurance plans. Congress can't touch these supplemental arrangements because they fall outside pension law.

In addition, the cutbacks meant that many small-business plans suddenly were overfunded, preventing further contributions and denying owners tax deductions built into their financial plans. Overfunding prompted a wave of terminations. Other plans folded because the owners had built more cash value than they could ever expect to withdraw under the new income limits.

In lowering the benefits for everyone else, however, Congress exempted itself from the pension limits.

"Top-heavy" rules. So-called top-heavy rules introduced in 1982 apply tougher vesting and minimum-benefit standards to pension plans in which more than 60 percent of accumulated assets are earmarked for key employees. This rule primarily affects small-business owners and highly paid professionals.

The intent was to ensure that a firm's rank-and-file employees would benefit from their employer's pension plan, and that plans would not become tax shelters for owners and managers. However, the Employee Benefit Research Institute, a Washington research organization, has found no statistical evidence to support the contention that small employers discriminate against their workers in participation or vesting requirements.

Nondiscrimination tests. The Tax Reform Act of 1986 introduced nondiscrimination tests, adding another layer of complexity to pension-plan administration. For defined-benefit plans, these new equity rules largely duplicated the intent of the 1982 top-heavy rules. Despite the obvious redundancy, employers now must conduct two different sets of tests to prove that their pension plans don't discriminate against the rank-and-file.

As for defined-contribution plans, tax reform introduced a Rube Goldberg-like set of nondiscrimination and coverage tests for the popular 401(k) savings plans. According to a study by the Association of Private Pension and Welfare Plans, the new tests are "so complex as to discourage small employers from offering such a previously simple retirement savings plan."

Family limits. "Family-aggregation" limits, also imposed in 1986, require a husband and wife who own and run a business to combine their annual salaries for the purposes of calculating tax-deductible pension-plan contributions. This penalizes married couples because the combined limit is lower than the limits together would be if they worked for separate businesses. The aggregation rules don't stop with spouses, however. They include children and close relatives.

Funding limits. "Full-funding" limits enacted in 1987 put a ceiling on the tax-deductible contributions that employers may make to their defined-benefit plans. Any portion of a contribution that exceeds 150 percent of current liability (the liability that the plan would face if it were terminated today) is no longer tax-deductible.

The previous funding method allowed employers in a profitable year to make large pension payments to build a credit balance. In an unprofitable year, the company could draw on that balance and not make a contribution. The full-funding limit restricts this practice, thus denying small employers the flexibility they previously relied upon to fund their plans through up and down business cycles.

"The full-funding limit is the most significant factor adversely affecting small-plan formation and termination of defined-benefit plans," concluded a recent report by the Small Business Administration.

Surveying the legislative and regulatory upheaval of the 1980s, Lisa Sprague, manager of employee-benefits policy for the U.S. Chamber of Commerce, finds a disturbing theme: "Overall, Congress seems to be expressing an opinion that private pensions are at best a tax dodge and at worst a means to treat employees unfairly." The full weight of this attitude fell squarely on small businesses.

The defined-benefit plans are basically dead for small companies.

—Donna Hopson

"The defined-benefit plans are basically dead for small companies," says Donna Hopson, president of Hopson Pension Services, in Santa Ana, Calif. And defined-contribution plans aren't taking up the slack. Hopson cites as evidence the results of a survey by the National Institute of Pension Administrators, conducted last year when she was chairman of the organization, based in Tustin, Calif.

Among the 70 respondents, all of whom manage multiple small-business plans, the survey found that 34 percent of defined-benefit pension plans and 13 percent of the defined-contribution plans in existence three years ago had been terminated.

Of perhaps more significance, small companies have shied away from starting plans. The survey found an 80-percent decline in the formation of defined-benefit plans over a three-year period and a 14-percent decline in formations of defined-contribution plans.

Of the reasons given for terminating plans, 92 percent cited legislative changes, complexity, benefit cutbacks, and administrative expenses.

Nationwide, IRS figures show that companies of all sizes terminated 16,300 defined-benefit plans and 17,900 defined-contribution plans in 1990, while 1,900 defined-benefit plans were started and 11,400 defined-contribution plans were begun. (See the chart at right.)

Tom Terry, benefits tax counsel for the U.S. Treasury Department, says the terminations should not be considered a bellwether for the pension system. He maintains that many of the plans that were terminated were created as tax shelters for highly paid professionals and small-business owners. "I don't think the system should moan the loss of those plans," says Terry.

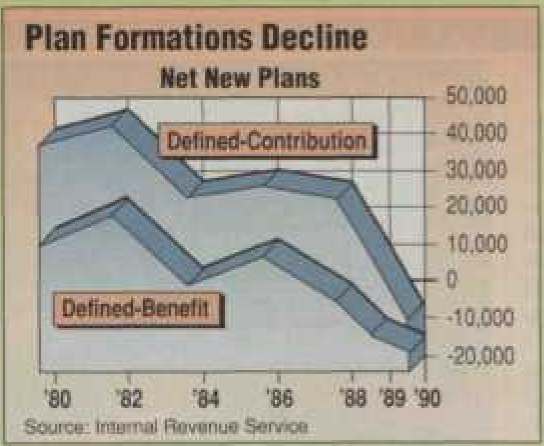
His views are shared by Dallas Salisbury, president of the Employee Benefit Research Institute. "I don't find the terminations the least bit disturbing. And I don't think public-policy makers should find them disturbing," Salisbury says. "A very large segment of the smallest professional corporations were looking at pension plans as tax shelters."

Pension administrators don't deny that some high-income professionals and some small-business owners built generous retirement benefits for themselves while doing little or nothing for their employees. But they insist that Congress could have curbed any such abuses without all the layers of complexity that have been added.

"The simple solution to this problem was to put a maximum limit on the percentage of payroll going into deductions, such as 25 percent," says Ted Benna, a principal with the consulting firm of Noble Lowndes, in Newtown, Pa. "That would have killed the most abusive plans."

Instead, says Hopson, "Congress used a cannon to kill a gnat."

Salisbury maintains, however, that "if a small employer is principally interested in retirement income, it is easy and cheap to have a retirement-income arrangement in spite of all the regulatory changes." He suggests looking into defined-contribution arrangements, such as 401(k) savings plans or Simplified Employee Pension (SEP) plans. SEPs essentially provide employees with individual retirement accounts funded by the employer. (See the box on Page 22.)



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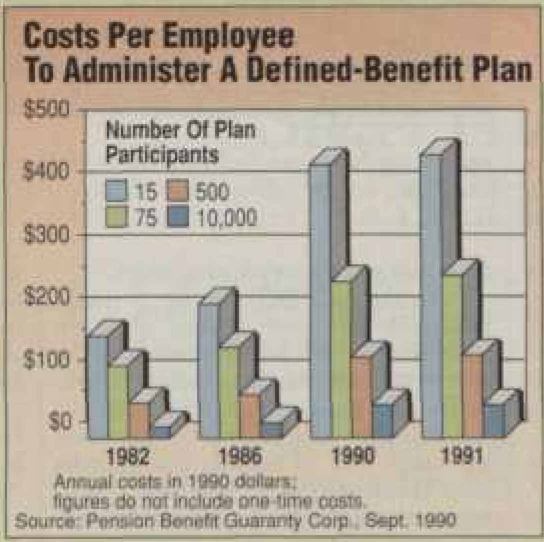


Annual costs in 1990 dollars; figures do not include one-time costs.
Source: Pension Benefit Guaranty Corp., Sept. 1990

CHARTS: MARCY MULLINS

The point being missed, say small-business advocates, is that defined-contribution plans cannot readily achieve the level of retirement income that defined-benefit plans can provide for small-business owners and their employees.

Moreover, Congress is regulating defined-benefit plans out of existence.

According to a survey of 763 corporations by the Wyatt Co., a consulting firm, the annual defined-contribution pension for a retiree who had been earning $15,000 a year averaged 19 percent of income, or $2,850 a year. Under a defined-benefit plan, the average pension for the same retiree would have been $4,200 a year, or 28 percent of salary. The survey found that similar differences continued until annual salary surpassed $100,000.

In theory, someone who contributes generously to a 401(k) savings plan each year for an entire career could build more retirement income than that provided by a typical defined-benefit plan. But most people spend part or all of their 401(k) savings before retirement. The Employee Benefit Research Institute found that only 11 percent of the 8.5 million workers who changed jobs and received lump-sum distributions from retirement savings plans in 1988 put the entire amount into another tax-deferred account. Thirty-four percent spent the entire sum.

From the point of view of most employers with fewer than 25 workers, 401(k) plans are "too complex and burdensome to operate," says Benna. The payroll deductions are an administrative hassle, and it takes an expert to comply with the nondiscrimination rules. Benna should know. In 1980, he obtained for his company the IRS's approval for what became the nation's first 401(k) plan.

"To say that the pension regulations have become overburdensome is an understatement," says Alvin D. Lurie, a New York benefits lawyer who served as the first assistant IRS commissioner in charge of implementing ERISA, from 1975 to 1978. The regulations, he adds, "have become a bone-crushing burden."

Lurie headed a study committee of the New York State Bar Association that concluded in an October 1988 report that Congress is wrecking the private pension system. The report stated: "The process must be halted lest the private pension system be destroyed, with devastating results for the retirement security of the nation's workers and their families."

The impact of legislative and regulatory changes in the 1980s clearly mocks the historical intent of pension legisla-

tion. For more than 60 years, Congress sought to expand the system while making it financially sound and fair.

Experts maintain that the preoccupation with rewriting the pension laws during the past decade was not motivated by evidence of rampant abuse of the system but by a pressing need to find new tax sources in the face of the rapidly growing federal deficit. "Pensions became the captive of deficits in the 1980s," says Lurie.

In the early 1980s, the congressional tax-writing committees, searching for ways to increase revenue without raising income taxes, turned to tax-exempt employee benefits. The temptation was too much to resist. The Treasury Department estimated that in 1982 the tax incentives for pension plans resulted in a revenue "loss" of $26 billion. (For 1991, the estimated revenue "loss" is $51 billion. However, a study by the Association of Private Pension and Welfare Plans concluded that for every dollar in so-called forgone tax collections, private employers pay out $4.60 in pension benefits.)

Congress began whittling away at that tax "loss" in 1982 through such steps as the reduction of maximum annual pension income from $136,425 to $90,000. The top-heavy rules also were projected to raise revenue by discouraging plan contributions by highly paid individuals.

The way these rules were added to the tax law also foreshadowed a disturbing trend in congressional handling of benefits legislation.

The top-heavy rules first appeared in conference committee, where House and Senate members reconciled differences between tax bills already passed by both houses, notes Sylvester Schieber, director of research for the Wyatt Co. "These provisions were never discussed in committee, and they were never de-

It Doesn't Get Much Simpler Than SEP

PHOTO: ©TOM KOSTER—BLACK STAR

His company's *simplified employee pension plan has worked out, says Gene Griffiths, center, shown with Howard Wilson and Mary Hodges.*

For Gene Griffiths, the hassle and expense involved in maintaining his small company's profit-sharing plan became more than he could bear. So he canceled the plan and switched to a SEP—a simplified employee pension plan.

SEPs are similar to Individual Retirement Accounts, but they permit employer contributions much larger than the $2,000 limit on IRAs. Employers can set aside as much as $30,000 annually per participant—including themselves—with a minimum of complexity.

"The SEP has worked out great," says Griffiths, president of Gregory Manufacturing Co., a wood-products company employing about 45 people in Jackson, Miss. "It's the easiest thing in the world."

Although Congress authorized SEPs in 1978 expressly for small businesses, less than 10 percent of all small companies have adopted one. "I don't think the word is out on SEPs," says Griffiths. SEPs are frequently called "the pension plan almost nobody knows about."

To start a Model SEP, all an employer must do is fill out IRS Form 5305-SEP. The form has just six blank spaces. No other reports or documents are required.

Next, ask employees to set up an IRA at a local financial institution, or you can open an account for them. Participation is mandatory for any employee who is over age 21, has worked for the company a minimum of three years, and has earned at least $300 (indexed each year for inflation).

Once a year, you decide what percent of payroll—ranging from zero to 15 percent—to put into each individual's SEP account. You must use the same percentage for everyone. But you also may change the percentage from year to year, and you may even skip years.

Once the first SEP deposit is made, mail each employee a copy of Form 5305-SEP, as well as a statement of the contributions made. That's all there is to it. The IRS doesn't even get a copy.

Employers who currently maintain any other type of pension plan or who have terminated a defined-benefit plan may not use the Model SEP. However, they may establish a non-Model SEP—which means drafting special plan documents that are more complex than the model form—with IRS approval.

The Tax Reform Act of 1986 also created a variation of the SEP called a Salary Reduction SEP. It functions much like a 401(k) savings plan, allowing employees to use payroll deductions to make tax-exempt deposits into individual savings accounts. Participants in 1991 are permitted to make contributions up to $8,475 (indexed annually for inflation).

Certain restrictions apply. To establish a Salary Reduction SEP, a company must be organized for profit and must have no more than 25 employees. Participation is voluntary, but at least 50 percent of eligible employees must take part. "These plans are dramatically simpler and less expensive than 401(k)s, and they are catching on," says Dan Maul, president of Retirement Planning Associates in Kirkland, Wash.

However, research has shown that many employees regard SEPs as bonus-pay plans, not retirement plans, because they have immediate access to the money, even though they pay taxes and a 10-percent early-withdrawal penalty on the amount they take out before retirement, says Paula Calimafde, a Bethesda, Md., benefits attorney.

More information on SEPs can be found in a Small Business Administration booklet titled *Simplified Employee Pensions: What Small Businesses Need To Know*. To obtain a copy, send a check for $1 to the Superintendent of Documents, Washington, D.C. 20402-9325. Ask for publication No. 045-000-00256-0.

bated in open hearings," he says.

Four years later, behind-closed-doors tinkering with the taxation of benefits was taken to an extreme when Congress produced the infamous Section 89 of the tax code, aimed at preventing discrimination against rank-and-file employees in health-care plans. Penalties for noncompliance were expected to raise hundreds of millions of dollars. Even so, no committee ever publicly debated Section 89 before it was included in the tax package.

PHOTO: T. MICHAEL KEZA

If there was someone in Congress who really knew what this [pension] regulation was saying, it wouldn't happen.

—Paula Calimafde

In an effort led by the U.S. Chamber of Commerce, small companies barraged Congress with complaints about Section 89's excessive complexity and unbearable compliance costs, and the provision was repealed in December 1989.

Tax reform also produced revenue-raising nondiscrimination rules of Section 89-like complexity for pension plans.

Although it has taken years to assess the full impact of these nondiscrimination rules, pension administrators now maintain that they pack as much destructive punch as did Section 89.

Throughout the tax-reform process, Congress showed more concern for raising revenue than for protecting the pension system, says former congressman Erlenborn. "Time after time in the [House] Ways and Means Committee, the Senate Finance Committee, and the joint [Senate-House] tax committee, whenever they needed revenue, they turned to employee benefits. They did it without concern for protecting retirement-income security."

Says Hopson: "Section 89 was disastrous. But the pension area was hit with laws just as disastrous. Now we have a list of 30 or 40 tests to go through to see if a plan discriminates."

As with Section 89, benefits experts maintain that few in Congress really understood what they did.

"The congressmen don't know what's involved; they don't understand what's going on," says E. William Berke, president of Benefit Associates Inc., in Orange, Calif. He also serves on an IRS regulatory advisory panel.

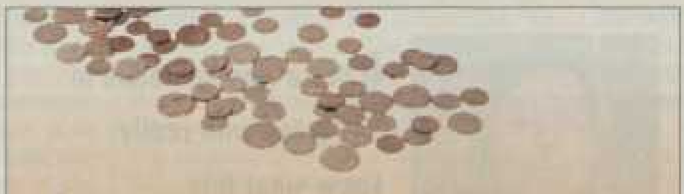
"The staffs of the tax-writing committees are the major problem," Berke adds. "Their orientation is very anti-small-business."

This view is widely shared among benefits experts across the country. Says Marvin Kamensky, a Lincolnwood, Ill., benefits attorney: "There has been a group in the Treasury and the Joint Committee on Taxation who have felt strongly for a number of years that professionals and small-business owners

should not have pensions."

The problem, says Jack Linton, a Reading, Pa., benefits attorney, is that "the [congressional] staff people see a perceived abuse, but they don't stop to find out how widespread it is. Then they proceed to act without the facts. If I practiced law like that, I'd lose my license."

Paula Calimafde, a Bethesda, Md., benefits attorney, points to a pending change in the IRS-approved method of calculating pension benefits as an example of how Congress is out of touch with the consequences of its actions.



I just hope that Congress wakes up and realizes before it is too late that it is gutting the private pension system.

—Jim Kreder

The proposal is part of the IRS' "monster package"—numbering 62 pages of small type in the *Federal Register*—of updated nondiscrimination regulations stemming from 1986 tax reform.

The proposed regulation would prohibit employers from establishing a pension plan that would pay a full benefit in less than 25 years.

That may sound harmless enough, but actuaries who have run the numbers foresee a severe impact on small-business plans.

Here's what actuary Allen Gorrelick of Bethesda, Md., found would happen in one simple case:

A 55-year-old business owner wants to establish a defined-benefit plan. The owner has one employee, age 40. Both expect to retire at age 65—giving the owner 10 years to build a retirement nest egg and the worker 25 years. The owner earns $100,000 a year; the employee makes $25,000.

Under the current rules, the employer can structure the plan to retire at 65 with a $30,000 annual pension, or 30 percent of pay. When the employee retires at 65, the plan will pay a $7,500 annual pension, also 30 percent of pay.

Under the 25-year accrual rule, the employer still could retire at 65 with a $30,000 pension, but it would be in effect a partial pension—funded at a level to produce a $30,000 benefit after 10 years. The funding level would be at 75 percent of the owner's salary, and that rate would have to be applied also to the employee's pension funding. As a result, the impact of the new rule would show up entirely in the employee's retirement income. At age 65, the plan would pay the employee an annual pension of $18,750.

Thus the employer would retire at 30 percent of salary while the employee would retire with 75 percent of salary. To meet this higher benefit level for the employee, according to Gorrelick, the employer's total contribution to the employee's pension would have to balloon from $44,400 to $111,110.

"I don't think there is anything in the [tax-reform] law that authorizes this," says benefits attorney Calimafde. "The IRS just made it up. If there was someone in Congress who really knew what this regulation was saying, it wouldn't happen."

Says Gilbert, president of United Plan Administrators: "The effects of this proposed regulation will be devastating. It would terminate all small-business defined-benefit pension plans that are left. It says you cannot fund a defined-benefit plan any faster for an older person than a younger person. If you can't do that, then a defined-benefit plan has no purpose."

There is still a slim chance that this proposed rule will be changed. The IRS has not yet adopted the final version of its new nondiscrimination regulations. It now plans to complete the package and begin enforcement Jan. 1, 1992. That is three years after the enforcement deadline Congress established in the 1986 Tax Reform Act.

This delay illustrates another big problem for small business. Throughout the 1980s, the IRS missed statutory deadlines for issuing regulations that companies needed in order to comply with ever-changing pension laws. Failure to produce regulations in a timely fashion has bred frustration and has undermined voluntary compliance, according to some experts.

"We are seeing significant resistance to complying [with pension laws] due to lack of guidelines," says Benna. "The Treasury is dependent on voluntary compliance, but if private practitioners are unable to tell their clients what to do, the Treasury is dead in the water."

Frequently, when regulations finally do emerge, Benna adds, they are so complex that even the experts don't agree on their application. "I go to trade-group meetings where the collection of talent is as high as anywhere in the country, and people walk away from these all-day sessions on regulations not agreeing and not understanding.

"If the experts can't figure it out, how in the world can we expect the average employer to comply with this? What level of enforcement can we expect? Congress has created a monster."

Under the circumstances, it is not surprising that the New York State Bar Association study committee recommended doing away with every pension law passed since ERISA in 1974 and starting all over. "Simplification is essential to having a system that people can understand and that has costs that are manageable," says Lurie, who chaired the committee.

The Association of Private Pension and Welfare Funds has advanced its own blueprint for overhauling the system, a 60-page report called *Gridlock: Pension Law In Crisis, And The Road To Simplification*. It offers a number of specific proposals to reverse a decade of legislation that "has undermined the pension system and threatened its viability as a means of delivering retirement-income security."

Simplification emerged on the congressional agenda last year in the form of identical bills introduced by Sen. David Pryor, D-Ark., and Rep. Rod Chandler, R-Wash. Although hearings were held, the measures died at the end of the session without action. The bill's sponsors are expected to reintroduce the measures this year.

The chief obstacle to simplification is the intractable federal deficit. "We are definitely interested in simplification, as long as it doesn't lose revenue," says Tom Terry, the Treasury official. Pension advocates maintain that it is impossible to have meaningful reform and remain revenue-neutral.

Clearly, the deficit battle line is drawn, and it will serve to restrain efforts in the 1990s to undo the damage done to the private pension system in the 1980s. Even so, pension-simplification advocates vow to press on.

Says Jim Kreder, president of Synergistic Planning, in Laguna Beach, Calif.: "I just hope that Congress wakes up and realizes before it is too late that it is gutting the private pension system." NB

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What Will You Give To The IRS This Year?

By Joan C. Szabo

As the April 15 tax-filing deadline approaches, individuals as well as business people face a number of tax changes that will affect their 1990 returns.

Some changes mean higher taxes for individuals and businesses, and others represent attempts by the Internal Revenue Service to clarify or simplify existing procedures.

Each year since the enactment of the sweeping Tax Reform Act of 1986, Congress has passed additional tax changes that have made planning difficult for taxpayers. That is why it is more important than ever to stay abreast of these developments and their impact on both your personal financial affairs and your business.

To help you do that, we list here some of the most significant changes that will affect your 1990 return.

PHOTO: T. MICHAEL KEZA

"A taxable event" *could occur with insurance policies, says Sam Starr.*

Self-employed taxpayers. Self-employed taxpayers pay Social Security/Medicare taxes at a rate of 15.3 percent, which is equal to the combined employer-employee tax payment for those employed by others. For 1990, the maximum amount of net self-employment income subject to the tax is $51,300.

Now, for the first time, the self-employment tax is partially deductible. On their returns for 1990, the self-employed may either deduct 50 percent of the self-employment tax paid in 1990 or reduce taxable self-employment earnings by 7.65 percent. Income subject to taxation includes the amount paid in Social Security taxes. Although a taxpayer working for an employer pays income taxes on the amount deducted from wages for Social Security taxes, the employer payment is not considered taxable income to the worker. The full amount of the self-employed tax had been subject to income taxes. The change is designed to give the self-employed a break on that portion of the tax that would represent the employer portion in an employer-employee situation.

Subchapter S corporations. For a business organized as an S corporation, a major change on the 1990 return relates to reconciling the company's income as reported on its financial statement and the income reported on the tax return. The IRS now has included a new form, Schedule M1, as part of the 1990 return for S corporations. Schedule M1 is similar to the schedule previously provided to regular corporations.

The purpose of the new schedule, says Robert Franco, a partner with the Washington, D.C., office of Price Waterhouse, is to reflect more accurately the balance in a company's accumulated adjustment account, or the "triple-A." This account represents the amount of money an owner of an S corporation can distribute to shareholders tax-free.

An S corporation's earnings are not taxed at the corporate level. Instead, income passes to shareholders in proportion to their ownership of the firm, and it is taxed at personal-income rates.

"It is critical for a business owner to know the amount of money in the triple-A at all times," says Franco. In the past, many triple-As were kept inaccurately, which meant that a business owner did not know how much tax-free money could be paid to shareholders. "The change will not raise or lower the amount of tax a company pays," Franco says. "It is simply designed to eliminate previous confusion regarding triple-As."

Business use of cellular phones. If you use a cellular phone for business and plan to take accelerated depreciation deductions for this type of equipment, you must have records sufficient to substantiate business use. To qualify for business use, the phone must be used for business purposes more than 50 percent of the time. Review your bills to identify calls made for business rather than personal purposes, and calculate the time the phone was used for business.

Home electronics products. Manufacturers and importers of home electronics products and other goods made with chlorofluorocarbons are subject to a tax based on the amount of such chemicals in the products. The tax is intended to discourage the use of chlorofluorocarbons, which are said by some to cause depletion of Earth's protective ozone layer. The chemicals are used by some companies in manufacturing products such as videocassette recorders, televisions, calculators, cameras, answering machines, and computers. The tax is applied to U.S. manufacturers using these chemicals since Jan. 1, 1990, and to direct importers—and certain retailers—of goods made with the chemicals.

The Alternative Minimum Tax. The corporate alternative minimum tax

Here are highlights of tax-code changes that could affect your business and personal returns for 1990.

(AMT) has been overhauled. Corporations now must do an adjusted current earnings (ACE) calculation when figuring the AMT on 1990 returns. The AMT is a separate tax computation required in addition to the regular income-tax calculation. Corporations pay the higher of the two calculations.

"The IRS has come up with a completely different method of computing depreciation when calculating the AMT," says Richard Jones, a partner with the accounting firm of Ernst & Young in Seattle. In addition, the new computation is more complex than the prior method, he says. "It is sure to cause a good deal of frustration on the part of corporations."

All corporations are required to do the new AMT calculation. As a result of the new computation, some companies that were not subject to the AMT in the past may find they now must pay it.

Executive insurance. If your company insures executives' positions, a recent IRS ruling will have an impact on your 1990 return, says Sam Starr, a Washington-based partner with the accounting firm of Coopers & Lybrand. Closely held businesses often use whole-life policies to insure positions held by key executives. The IRS ruling says that anytime a policy of this type is redeemed when an executive leaves the firm, the buildup in the value of the policy is taxable.

"If a company thought it was going to avoid a taxable event simply by insuring the position instead of the person," Starr says, "that is no longer the case."

Firms with 401(k) retirement plans. Participants in 401(k) retirement plans can make a maximum contribution of $7,979 for 1990, up from $7,627 in 1989. In 1991 the maximum contribution increases to $8,475.

Mileage deduction. The standard mileage rate for business use of an automobile in 1990 is 26 cents, up from 25.5 cents a mile in 1989. The rate now applies to all business miles, not just the first 15,000 business miles, as in prior years.

The standard rate, which rose to 27.5 cents per mile for 1991, can be used as an alternative to computing actual expenses, including depreciation. Remember, however, that you may not start out using the actual-expense method and shift later to the standard rate. If you want to use the standard rate at any time in the future, you must use it the first year that your business puts the vehicle (auto, van, panel truck, pickup truck) in service. You can shift later from standard rate to the actual-expense accounting method.

PHOTO: ©JAMES COOK

"Applying the brakes" *is the wrong move in a recession, says Thomas Brock.*

Expansion of Form 1040A. For individuals, Form 1040A has been expanded to allow reporting of most retirement income, including pension and annuity payments, taxable Social Security and railroad retirement benefits, and payments from an Individual Retirement Account.

The expanded 1040A also allows taxpayers to claim the credit for the elderly or the disabled and to report estimated-tax payments. Taxpayers who have been using Form 1040 for these items may now be able to use the easier Form 1040A.

Personal-interest deductions. The deduction for personal interest, such as that paid on auto loans and credit-card balances, falls to 10 percent on 1990 tax returns as the final step in the phase-out of that deduction. None will be deductible in 1991. (For more details, see "For Your Tax File," on Page 61.)

In addition to these changes, there are some general tips to keep in mind when completing your return. For example, be certain that you always make the right elections and take all the credits you are eligible to receive, says Thomas Ochsenschlager, a Washington-based partner with the accounting firm of Grant Thornton. "If you are due a credit, make sure that you fill out the proper forms and receive the credit," he says.

One election often overlooked by business people is the targeted-jobs tax credit. "Fast-food restaurants and some service businesses which are eligible for the targeted-jobs tax credit don't apply for it," he says.

The credit is available for 1990 and recently was extended through Dec. 31, 1991, by the Omnibus Budget Reconciliation Act of 1990.

If you just started a new business, make sure that you elect to amortize your organization expenses. A business owner who doesn't make that election on the first return filed after launching a business will not receive a deduction for

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those expenditures until the business is sold, Ochsenschlager points out.

As they look ahead to tax changes taking effect this year, which will be reflected in tax returns for 1991, some small-business owners are discovering surprises in the Omnibus Budget Reconciliation Act of 1990.

Sole proprietorships, partnerships, and Subchapter S corporations, which pay taxes at individual rates, are finding they may pay higher taxes in 1991. The budget law established a 31-percent tax bracket for individuals. With the new bracket, some small firms will pay at the 31-percent rate rather than at the 28-percent rate on a portion of their income. At the same time, others will see the rate drop from 33 percent to 31 percent on part of their income.

In addition, the law disallows $300 in itemized deductions for every $10,000 in adjusted gross income over $100,000, and it phases out personal exemptions for taxable income above $100,000 for individuals who file singly, and above $150,000 for couples who file jointly.

The new law also raised the alternative minimum tax for individuals to 24 percent from 21 percent. As noted above, the AMT is a separate tax computation required in addition to the regular income-tax calculation. Individuals and small-business owners who are subject to the tax must pay the higher of the two calculations. Experts say the increase in the rate will cause more taxpayers to be affected by the AMT.

Self-employed individuals are hit especially hard by a significant hike in the wages subject to the 2.9-percent Medicare payroll tax; the wage base rises to $125,000 from $51,300. The tax is divided in half for every employee, with the employer and the employee each taxed at 1.45 percent on the employee's wages. Self-employed individuals pay both employee and employer portions. A self-employed individual who earns $125,000 a year will pay an additional $2,137 in taxes in 1991 as a result of this payroll-tax hike, subject to the new deduction provision described above.

Despite the drawbacks, the new law does include tax benefits, some of them limited.

For the self-employed, the 25-percent deduction of health-insurance premiums from gross income was extended through the end of 1991. Small businesses are pressing, however, for a permanent 100-percent deduction.

For smaller firms, there is a credit available for the cost of providing access for disabled individuals. Eligible small businesses that make a qualified expenditure can take a credit of 50 percent of such an expenditure above $250, up to an aggregate limit of $10,250, for a maximum credit of $5,000.

A qualified expenditure usually includes architectural changes to a building to make it accessible to the handicapped, or the purchase of equipment that can be used by persons with hearing or vision impairments.

With the economy in a slowdown, some observers say the recent and significant tax increases in the 1990 law are poorly timed. "Not only is the recession putting the brakes on the economy, the new tax law also is applying the brakes. That is the exact opposite of what we should be doing when we are in a recession," says Thomas P. Brock, president of the accounting firm of Brock, Bucholz & Stow, in Longmont, Colo. "We have to do something to stimulate the economy and turn the country around." He recommends initiatives that will encourage savings, employment, and economic growth.

Because of the increasing need for an anti-recession policy, the U.S. Chamber of Commerce is backing a package of legislative changes that will help promote growth. Recently introduced by Sen. Malcolm Wallop, R-Wyo., and Rep. Tom Delay, R-Texas, the Economic Growth and Jobs Creation Act includes four specific tax proposals:

- Reduce the Social Security payroll tax by approximately 2 percentage points (about one point each for employer and employee).
- Cut the corporate and individual capital-gains tax rates to 15 percent, and reduce the rate even more—to 7.5 percent—for those in the lowest tax bracket. In addition, capital gains would be indexed to inflation. At present, the maximum individual capital-gains tax rate is 33 percent. The 1990 budget act reduced it to a nominal 28 percent, but it could be higher for some individuals who have large gains and must use the AMT calculation.
- Adopt a neutral cost-recovery system, which would protect tax depreciation write-offs against inflation.
- Encourage greater savings on the part of individuals by establishing the Individual Retirement Account Plus. The IRA proposal would allow savers to make deposits with after-tax funds and to withdraw deposits after age 59½ without paying taxes on interest earned on those deposits.

"These proposals," says Benson Goldstein, the U.S. Chamber's tax-policy manager, "not only will be helpful in getting the country out of the recession, but they are a viable and productive means of promoting long-term economic growth in the U.S." NB

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Selling To Uncle Sam

Women business owners hope to win a bigger share of federal contracts in the 1990s.

By Mary Beth Marklein

It took four tries, but Judith McDowall finally hit pay dirt in October 1989: her first contract with the federal government.

It was the perseverance that paid off, says McDowall, president of Biotechnical Services, Inc., in North Little Rock, Ark. Her firm, in business since 1985, provides technical writing and related services for clients, has 24 employees, and took in $837,000 in 1990. The federal contract she won—with the National Institute of Environmental Health Sciences—is worth more than $1 million over two years, and she has three one-year options after that.

"Doing the work is the easy part," says McDowall. "Getting the contract was the hard part."

Women-owned firms receive a disproportionately small share of federal spending for goods and services. Almost all the women-owned firms in the United States are small companies, and they make up about 30 percent of all small businesses. Yet last year, women-owned firms won only 5.8 percent of the federal contract funds set aside for small companies; that set-aside amount is about 20 percent—or about $33 billion—of the total $165 billion in contracts awarded by the government in 1990. Women-owned firms' share of the total $165 billion was 1.1 percent, or somewhat over $1.8 billion.

Nonetheless, women-owned firms' share of total federal contracts could rise significantly in the next few years if targets established by the Small Business Administration (SBA) are reached. Susan Engeleiter, who became the first woman to head the SBA, set a goal in late 1989 to increase the share of the total of prime contracts and subcontracts that go to women to 5 percent by 1993, up from the 1.1 percent share of the total achieved in 1990.

Although Engeleiter this year announced her resignation from the SBA, her goal remains an agency priority. In fact, it is seen by some as one of the first glimmers of a commitment to women since the late 1970s. At that time, a Carter-administration executive order required federal agencies to make good-faith efforts to provide contracting opportunities to women-owned firms.

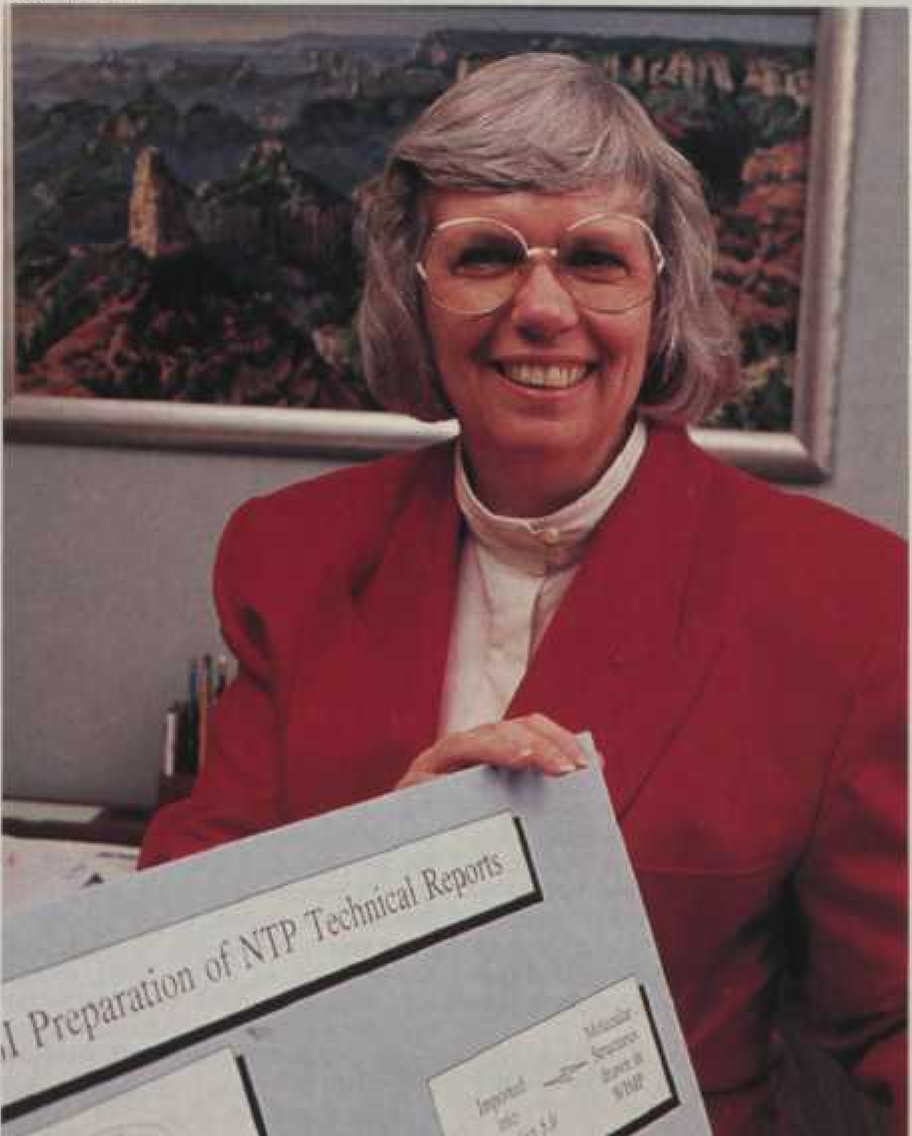
Another recent sign of change is the formation of the National Women's Business Council, created under the Women's Business Ownership Act of 1988 to make policy recommendations to the president and to Congress.

Part of the improvement in the percentages of federal contract dollars awarded to women-owned firms could come about through better data collection. Until recently, for example, SBA's documentation did not account for subcontractors used by private companies that received large government contracts. The percentages for women are expected to increase as this category of their participation and others are taken into account.

Other SBA strategies include stepping up cooperation among procurement departments throughout the government and improving women business owners' access to credit, a crucial need for young enterprises that want to grow.

Finally, "there's a new focus on finding women," says Lindsey L. Johnson, director of the Office of Women's Business Ownership at the SBA. The agency has expanded its regional staffs to pro-

PHOTO: ©WESLEY HITT



Hitting pay dirt *in search of a federal contract took three years for Judith McDowall's firm, Biotechnical Services.*

vide more assistance to women-owned businesses. It has initiated a series of conferences designed to help women business owners unravel the government's labyrinthine bidding process, to collect names of potential women contractors for distribution to agencies' procurement departments, and to spread the word that the government wants to do business with them.

"We're trying to give them a crash course," Johnson says. Because about one-fourth of all women-owned firms have been in business no longer than two years, she says, their "biggest problem is [not] being around the system long enough."

Not all women business owners are optimistic about the efforts, however. They are encouraged by the SBA's "renewed vigor," as one SBA field representative put it, but some critics maintain that the approach suggests that the only reason women aren't successful in getting contracts is that they haven't learned the ropes. Although the critics agree that understanding the process is a crucial first step, they contend that the federal procurement system itself and decision makers within the system have shut out women and small-business owners.

PHOTO: CHRIS LINDER

Federal set-asides *give a boost to Mary Barnes' company, Vita-Erb, a supplier of skin-care products.*

(SBA defines a woman-owned business as one that is 51-percent owned, operated, and controlled by at least one woman. Small businesses are generally defined as companies having no more than 500 employees.)

"The government has been basically condensing contracts so that more and more of them in larger chunks go to bigger business," contends Gillian Rudd, president of The Rudd Co., a marketing-services firm in Washington, D.C., and a member of the National Women's Business Council.

Adds entrepreneur Laura Henderson: "The government feels safer purchasing from name brands. Nobody's going to question your decision as much if you go with someone who's known." But be-

Winning Your Share Of Federal Business

The bottom line, say women who have won federal contracts, is knowing your market. That means getting your name to the right people and understanding their needs.

Government offices throughout the country buy a wide range of goods and services, from shipping tags and aircraft electrical-system components to janitorial and health services. Here are tips for getting some of that business:

■ Start with the Small Business Administration (SBA). Its district offices have staff members who can help you wend your way through the federal procurement system. Check the U.S. Government section of your telephone book for the SBA office nearest you, or call the national office at (800) 368-5855 (in Washington, D.C., call 653-7561).

■ Break in with a small contract—one for less than $25,000. "It's a foot in the door and could lead to more business," says Rosemary T. Mullany of the Commerce Department's Office of Small and Disadvantaged Business Utilization. She suggests calling for appointments to see small-purchase buyers—located in government purchasing offices throughout the country. Ask how often your service or product is purchased and how you can get on the list of bidders. Follow up periodically.

The *U.S. Government Purchasing and Sales Directory* can verify whether the government needs your product. The directory also provides addresses of government purchasing offices. The publication—issued about every seven years, most recently in 1987—is available for $5.50 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402-9371. (Stock No. 045-000-00226-8.)

■ If you're prepared to go after bigger money, get acquainted with *Commerce Business Daily*, the publication in which the government must advertise contracts that exceed $25,000, other than 8(a) set-asides. Also listed are prime contract awards—a good reference if you're interested in subcontracts. To subscribe, call (202) 783-3238, or write the U.S. Government Printing Office at the address above. A six-month subscription costs $130. Sample copies are available from the Commerce Department's Publications Office, (202) 377-0632.

■ List your company on the government's Procurement Automated Source System (PASS), a computerized listing of small businesses. Being on the list can increase your exposure, but it does not guarantee solicitations or contracts, Mullany cautions. To get listed, contact your local SBA office or write to the U.S. Small Business Administration, PASS, 409 3rd St., S.W., Washington, D.C. 20416.

■ Before submitting a bid, obtain information on past awards, quantities, costs, and award recipients. In developing the bid that resulted in her first government contract, Judith McDowall of Biotechnical Services, Inc., in North Little Rock, Ark., requested and received information about the contract's previous winner by using the Freedom of Information Act—a law that gives citizens access to many government records, including contracts. For guidance on using that law to request information, contact the purchasing office you want to deal with or your local SBA office.

■ Join business and civic groups. Get to know small-firm owners who might give you tips on getting contracts.

■ Make yourself known to potential purchasers by exhibiting at trade shows and going to procurement conferences. Federal agencies throughout the country offer conferences on procurement matters. Call the Defense Department's Office of Small and Disadvantaged Business Utilization at (703) 274-6471 and ask to be put on the mailing list for notice of such meetings. Most, but not all, focus on Defense Department needs.

Competition is fierce, so even if you jump through all the right hoops, you won't necessarily win a contract. But you can gain from the experience by calling the contractor who turned you down and learning why you were rejected. Most contractors are willing to talk.

It took Judith McDowall three years of trial and error to win her first contract. "Every time you aren't successful," she says, "you learn something."

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cause most small businesses owned by women are relatively young and unknown, they're more likely to be squeezed out, she says. Henderson is president of Prospect Associates, in Rockville, Md. It is a 12-year-old health-communications and biomedical-research firm whose clients include the National Institutes of Health. The firm did $11 million worth of business with NIH last year.

Henderson, former head of a procurement task force for the National Association of Women Business Owners, says women find that procurement personnel can be downright hostile in male-dominated fields such as construction. In some instances, she says, women have hired men to handle contract negotiations because "they get better deals."

In a 1988 report to Congress, the House Committee on Small Business said its investigations found not only that experienced women business owners are "hampered by a lack of information that would enable them to compete" but also that "women business owners are not taken seriously, have difficulty in achieving credibility, and are treated with patronizing discrimination."

Unlike minorities, women generally have not been guaranteed a share of federal contracts through legislation. Under a program known in government language as 8(a), the federal government must set aside a certain number of contracts for minority-owned businesses and other businesses that can prove they are socially or economically disadvantaged.

Ownership by a woman does not automatically make a firm eligible for 8(a) assistance.


PHOTO: T. MICHAEL KEZA

Procurement *personnel can be hostile to women, says Laura Henderson.*

For Mary Barnes, president of Vita-Erb, a Springfield, Mo., company that supplies skin-care and cleaning products to several federal agencies, the 8(a) program supplied the boost she needed. When she and her husband, Moses, started the company 10 years ago, she says, it "was just a small, struggling minority business trying to make a go of things."

Today, Vita-Erb has annual revenues close to $1 million and has won contracts with Veterans Administration hospitals, the General Services Administration, and the Tennessee Valley Authority. The set-asides make up about 30 percent of the company's business.

But Mary Barnes says that although the 8(a) program can open doors for small businesses, it's not for beginners. "[It] recognizes you after you have been in business for a few years and have proven yourself to be a business that's capable but needs assistance," she says. "You can't just walk in and say, 'I'm qualified.'"

Most 8(a) contracts have gone to male minorities, according to Rosemary T. Mullany, a small-business specialist with the Commerce Department. And when some women business owners approached Capitol Hill to push for similar set-asides just for women, the strongest resistance came from supporters of minority programs who feared that set-asides for women would take contracts

away from minorities. Women business owners pulled back on their demands. Gillian Rudd says the animosity between the two groups was unfortunate: "It's not a fight we want. We would like to try to open up the system for everybody."

Not all women want set-asides, however, and some, including Henderson, say it's unrealistic to expect them. "Most of the women feel that if they can just get in the door, they can prove their merit," she says.

But without a mandate, Mullany says, "our hands are tied." Except for the 8(a) set-asides, prime contracts—those worth more than $25,000—must go to the lowest bidder who can also demonstrate the ability to get the job done, she says.

"Federal contracting is just a really, really tough area," Mullany adds. "It's going to be years before there are women-owned businesses that are large enough to compete. Unless they work their heads off and play the game, until they grow, they can't do it."

For young companies in particular, SBA's Lindsey Johnson suggests that a federal contract "is not a reasonable objective" because the bidding process takes a long time and requires a hefty outlay of capital.

In addition, she says, most women are concentrated in service businesses, while the big federal money goes to companies in technical and manufacturing fields, "where women are only now beginning to blossom."

Johnson encourages women business owners to consider subcontracting with private-sector prime contractors, who, since 1988, have been required to detail their subcontracting plans, in part to show that women and minorities are included. That may generate more private-sector interest in women-owned companies, which in turn would help women establish the track record needed to win federal contracts.

Getting subcontracts in the private sector also usually requires less time and investment, which makes them less risky for beginners. And many private companies boast better records than the federal government when it comes to doing business with women.

Pacific Gas and Electric Co. in San Francisco, for instance, spent $80.2 million, or 7.5 percent of total corporate expenditures, in 1989 for products and services furnished by women-owned businesses.

Stein & Co., a Chicago-based real-estate developer that buys everything from office supplies and printing to paving and other construction-related services, strives to make at least 5 percent of such purchases from women-owned firms.

It's not do-goodism, says Julia Stasch, executive vice president at Stein & Co.: "It just means that you're trying to do business that's cognizant of the full range of what's out there." NB

Mary Beth Marklein is a free-lance writer in Washington, D.C.

For More Information

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Panoptic Enterprises, at P.O. Box 1099, Woodbridge, Va. 22193-0099; (703) 670-2812, offers two helpful books, *Getting Started in Federal Contracting*, $21.95, and *Proposals That Win Federal Contracts*, $24.95. They were written by a former Defense Department contracting officer, Barry L. McVay. Add $3 for postage and handling for the first book and 75 cents for each additional book; Virginia residents should add sales tax of 4.5 percent.

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POSTAL SERVICE

Minimizing Mail Costs

By Albert G. Holzinger

The $6-billion-a-year increase in postal rates that took effect in February could decrease the profitability of all American businesses to some extent, depending on the volume and type of their mailings. However, businesses of all sizes have tools at their disposal to reduce losses stemming from the rate hikes, which average 18 percent for all types of mail.

There is plenty of help available for large firms with correspondingly large mail volumes and for firms of all sizes—such as publishers and direct-mail marketers—with mail-intensive operations.

The ins and outs of obtaining the countless discounts available under the new rate structure are well known by the printers, mail houses, mail consultants, and mail-room-supply companies employed by big mailers. In fact, many of these mailers and vendors, individually or through their trade associations, participated in the 10-month rate-structuring and rate-making process that preceded the Feb. 3 effective date of the new rates.

In contrast, "small-business people may have a problem" uncovering the discounts available to relatively low-volume mailers, says Norma Pace, the new chairman of the U.S. Postal Service's board of governors. Nonetheless, small companies can bridge that information gap through tutoring from the Postal Service, says Pace, who herself runs a small economics-consulting and strategic-planning firm in New York.

Regardless of your firm's size, the key to keeping postal costs as low as possible is making your mail as compatible as possible with the automation program instituted by Postmaster General Anthony M. Frank.

The cost savings of automation are evident. Sorting and distributing 1,000 letters by hand costs the Postal Service over $30, but processing 1,000 letters with sophisticated machines can cost as little as $3, says Richard Strasser, a senior assistant postmaster general.

To reap such savings from automation, the Postal Service will spend more than $5 billion on high-tech hardware by the end of 1995, says Strasser, who oversees the Postal Service's marketing and customer-service efforts.

The most advanced of these machines—wide-area bar-code readers, as they are called in the mailing industry—are to be deployed nationwide by this fall. They sort mail by reading bar codes printed before the conventional name, street address, city, state, and ZIP code on an envelope. If customers don't put such bar codes on envelopes (only 7 percent of mail now is customer barcoded), the Postal Service must incur the cost of doing it for them.

Postmaster General Frank's goal is to have customer-applied bar codes on 40 percent of mail by the end of 1995. And you can reduce your own postage-cost increases under the latest rate increase and any rate hikes that may come later by helping Frank achieve this goal.

For example, under the recent rate hike, it costs 29 cents each to mail unsorted one-ounce letters without bar codes. However, it costs 5.7 cents less apiece to mail the same letters sorted by five-digit ZIP code and bearing the proper bar code. Similarly, it can cost as much as 19 cents or as little as 15.5 cents apiece to mail cards, depending on the level of presorting and coding you undertake before delivering the cards to the post office.

"If there is [work] that can be undertaken by a mailer that obviates the need for the Postal Service to provide that work, we have provided an incentive for him or her to do it," says Strasser.

Pace puts the Postal Service's strategy more directly: "If you do a little bit more, we'll charge you a little bit less."

Presorting and barcoding may sound like they would be time-consuming and costly for your firm. But they need not be if you have a personal computer and a high-quality printer, Strasser says.

Computer software that enables mailers to attach extended ZIP codes to mailing addresses and to put bar codes on envelopes is readily available, says Rusty McKee, director of marketing communications for Pitney Bowes, a manufacturer of mailing equipment.

Because postal discounts vary so widely in size and availability, according to the type and volume of mail, the common-sense course of action is to seek expert advice in determining which apply to you. And the ultimate authority in this matter is the Postal Service itself.

The Postal Service offers free counseling for businesses, says Strasser. "Ask your local postmaster to put you in touch with the marketing director for your ZIP code," he recommends. Through this person, Strasser says, you can get help from more specialized postal experts.

The Postal Service's marketing staff also can supply the names of local vendors of mailing equipment and of for-profit providers of mailing assistance, such as presort bureaus. These bureaus may represent small business's best op-

New Postal Rates For Business

	New Rate	Increase
Small-business bills *(First class, no presorting)*	.29	.04
Department-store bills *(First class, three- or five-digit ZIP presorting)*	.248	.038
Utility bills *(First class, five-digit ZIP prebarcoding)*	.233	.033
Express Mail *(Letter rate)*	9.95	1.20
Periodicals *(Second class, 1 pound)*	.363	.066
Catalogs *(Third class, 8 ounces, five digit ZIP presorting)*	.363	.092
Letter-size advertisements *(Third class, 2 ounces, prebarcoding)*	.179	.012
Saturation local advertisements *(Third class, 3 ounces, carrier route walk sequencing)*	.11	.009
Parcel Post *(3 pounds, zones 1 and 2)*	2.02	.44

Source: U.S. Postal Service

To soften the blow of rising postal rates, firms should make their mail compatible with Postal Service automation.

portunity to make the most of discounts under the new rates, says Jim Fetherston, a marketing executive of Metromail Corp. Metromail is a mailing-services subsidiary of R.R. Donnelley & Sons, Co., a major printing company.

A presort bureau picks up the daily mail of firms whose mail volume is not large enough to qualify for most discounts. The bureau commingles the collected letters, sorts them in the most economical manner possible, and takes them to the post office. Postage savings are shared among the presort bureau and its customers.

If you still are hesitant to plunge into the alien world of postal automation—of optical character readers, extended ZIP codes, bar codes, carrier route walk sequencing, and the like—consider this: The more your mail is compatible with postal automation, the faster it will be delivered. Preparatory work will "eliminate steps inside the post offices, and the more steps you cut out, the quicker your mail will get there," says Fetherston. And if your business "is doing any kind of remittance mailing," he adds, the use of bar codes on outgoing mail and on return envelopes surely will reduce the time it takes for your customers' payments to reach you.

Seminars And Services

Under the new postal rates, deciding how much postage to affix to a piece of mail is more complex than ever.

The U.S. Postal Service can help you learn about mail matters, either through individual counseling or at one of its postal forums. (The next forum will be May 13-16 in Chicago. For information, call J.C. Peloquin Jr. at 202-268-2342.)

Another valuable source of advice consists of for-profit mailing-services companies. Postal seminars are sure to abound in the next few months, and one-day workshops already have been scheduled by mailing-equipment maker Pitney Bowes. They are set for Washington, D.C., March 6; Atlanta, March 7; Chicago, March 26; Cincinnati, March 27; Kansas City, Mo., April 2; St. Louis, April 5; Phoenix, Ariz., April 9; Denver, April 11; Los Angeles, April 24; San Francisco, April 25; San Diego, April 30; and Seattle, May 2. Cost is $145. For information, call 1-800-MR BOWES. NB

PHOTO: U.S. POSTAL SERVICE

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HARDWARE

A Bushel Of New Apples

Early generations of Apple computers engineered by company founders Steve Jobs and Steve Wozniak lacked the power and flexibility that most business users require. Introduction of the Apple Macintosh in the early 1980s changed that.

The first and subsequent Macs have plenty of muscle. Consequently, many firms of all sizes have added Apples to their mix of IBM and compatible PCs, and many others use all Apples.

The Mac draws fans for its ease of use, a consequence of Apple's tightly integrated graphic interface and overall consistency. Macs reduce training time and make users more efficient, says Chris Veal, a partner in the accounting and consulting firm of Ernst & Young. "Our people have to be able to learn applications quickly and use them easily and effectively—even if they haven't touched the software in quite some time," says Veal, who works in Ernst & Young's office in San Jose, Calif.

Macs are especially popular among firms that run primarily graphic applications, ranging from desktop publishing to demanding pre-press uses. "What is available now on other platforms costs considerably more to get the same functionality that the Mac does," explains Dennis Haas, resource manager in Washington, D.C., with Knight Ridder Tribune News (KRTN), a news wire service. "And you can't necessarily get the same functionality on other platforms, either," Haas adds.

The Macintosh runs only Apple's proprietary operating system, unlike IBM and compatible PCs, which run open operating systems. But the fact that there are no Apple clones does not mean that hardware choices are constrained. In particular, Apple's recent introduction of three new models substantially broadens the array of Macs and helps narrow the price/performance advantage enjoyed by DOS-based PCs. Moreover, a number of third-party companies manufacture add-ons and peripheral products for the Macintosh line.

Here is a sampling of Macs that work well in a business setting and peripherals that can enhance the performance of your Mac-based computer setup.

Mac IIfx. For any type of intensive business applications—from numbers crunching to desktop publishing—the IIfx is still the weapon of choice on the Mac side. We evaluated a unit with a 12-inch RGB monitor, an 80MB hard disk, and 4MB of RAM (which will likely run you more than $10,000) and found it to be a formidable product.

PHOTO: ©LINDA SUE SCOTT

Macintosh computers *reduce training time, says Chris Veal.*

The IIfx's 68030 processor runs at a blazing 40Mhz, along with a 68882 floating point co-processor that runs at the same speed. The system design also has a 32K static RAM cache to increase performance, six expansion slots, and 512K of ROM that includes 32-bit Color QuickDraw and Apple's easy-to-use file-management system. Loaded with an assortment of popular general business applications, the IIfx is a most able performer, we found, even when compared with high-end PC products using the Intel 386 or 486 processor.

If you are attracted to the Mac's charms and are looking for a no-holds-barred unit, the IIfx is definitely the way to go. It's still a bit pricey, but if you need the performance, it's worth the expense.

The New Macs

Last fall, Apple launched three new Mac models: the Classic, the LC, and the IIsi. Although the Classic is an entry-level machine, it could appeal to some business users as an inexpensive workstation. The other two models offer very aggressive price/performance ratios and are suitable for almost all business users.

Macintosh LC. The Mac LC has a slim, 3-inch profile, weighs less than nine pounds, and is powered by a 68020 processor. Its base configuration ($2,499 list) includes 2MB of RAM, video circuitry, a SuperDrive floppy-disk drive, a 40MB hard disk, and a keyboard. Adding the Mac 12-inch RGB color display bumps the price up to about $3,098.

The LC offers a fair amount of power for the price. But there are a few drawbacks for business users to consider. There is only one expansion slot, and there is no math co-processor included, which makes this a less robust choice for crunching numbers. However, the low price still makes it attractive for less demanding jobs.

Macintosh IIsi. The IIsi is the most appealing model in the new Mac line, and it is packed with power—even in its base configuration. Processing power comes from a 68030 processor running at 20Mhz (about 30 percent faster than the LC), and the $3,769 base unit includes 2MB of RAM and a 40MB hard disk (but no keyboard). Configured with 5MB of RAM and an 80MB hard drive (Model 5/80), the list price is $4,569.

The IIsi can be expanded up to 17MB of RAM and is priced aggressively, en-

hancing this machine's appeal for business. For overall speed and power, the IIsi compares quite favorably with DOS machines such as the Compaq Deskpro 386/20e or IBM's Model 55SX, and it lists for about the same as or less than those products.

Although Apple's patent stronghold means you can buy a Mac computer only from Apple, there are plenty of printers, disks, expansion cards, and other peripherals available from numerous other vendors as well as Apple. The following selection is just a small sample of the many products you can add to your Mac system for increased productivity.

The Mac LC, list price $2,499, offers a fair amount of power for the price.

Laser Printers

Apple offers a full line of printers, including the **Personal LaserWriter NT,** the **LaserWriter IINT,** and the **LaserWriter IINTX,** which range in price from $3,299 to $5,999. All of the Apple printers are well-made and feature the Adobe PostScript language—as close to a universal standard as exists. But don't count out the superb **Hewlett-Packard LaserJet III** printer, which can be outfitted with a PostScript cartridge and an AppleTalk interface for about $800 above the basic printer list price of $2,395 and street price of about $1,600.

You also might want to consider the **NEC Silentwriter 2 Model 90.** This model produces six pages per minute (ppm) and sports a retail price of $2,495, with street prices that are far lower, making it a better overall value than Apple's 4-ppm Personal LaserWriter. Based on a new laser print engine from Minolta, the Model 90 produces demonstrably better print quality than products that use the current generation of Canon engines, with richer black fills and shading and generally crisper looking letters. Standard equipment includes 2MB of RAM (expandable to 4MB), a 250-sheet paper-input bin, an AppleTalk interface, a Motorola 68000 processor, and 35 scaleable Adobe PostScript typefaces (the same basic font set as the LaserWriter series). The printer's cartridge needs replacing only every 6,000 pages. The Model 90 includes an IBM PC compatible interface and HP Laserjet IIP emulation for added versatility.

If your business's volume of printing is heavy, you might consider the **TI microLaserXL,** which can print documents from your Mac at speeds of up to 16 ppm. Using a Sharp-developed laser engine and a TI controller, the XL is designed for intensive use. It features a 240-sheet input tray (a 500-sheet tray is optional) and lists for $4,599 with Adobe PostScript and 35 internal fonts.

Your printing options don't have to be black and white. Color PostScript printing is available from the **Seiko ColorPrint PS Model 4.** With a list price of $6,999, this is the lowest-priced 300x300-dots-per-inch PostScript-compatible color printer on the market. Base features include 6MB of RAM, 35 Postscript-compatible fonts, and a comforting 90-day on-site parts and labor warranty.

The ColorPrint uses paper on a 145-sheet roll, so it can print slightly larger

HARDWARE

images than competing models that use cut sheet paper, and you can buy either three- or four-color ink ribbons for the thermal-transfer printer. We found the color saturation to be excellent, and at a price of about 40 cents per page (ink and paper), this is not only a great product for the graphic-arts community but also a great way to spruce up business presentations.

Miscellaneous Hardware

The new **Epson ES-300C Color Image Scanner** is a cost-effective way to bring color images into a Mac system. The ES-300C is easy to use, relatively inexpensive ($1,995 list), and comes with a Mac software bundle worth over $2,500 at retail. The system uses 24-bit color processing to provide more than 16 million color hues at 300 dots per inch, and it also can be used to scan in monochrome images with 256 levels of gray.

The flatbed scanner employs a scanning technology called TruePass, which uses three gas-filled light bars so that all colors are scanned in one pass (some scanners require multiple passes). The result is faster scanning and greater accuracy than other scanners achieve. Another plus is the direct-print feature, which lets you send a scanned image to some color printers directly. The $595 Mac interface kit includes **Hammerlab's ScanDo/DA** and **Letraset's Color Studio and Image Studio,** along with an SCSI interface board. A great product at a great price.

The power-packed IIsi is the most appealing model in the new Mac line.

Adding storage capacity to your Mac entails a simple procedure. One worthwhile choice is the **GCC UltraDrive Series** of external SCSI hard disks. There are models that range from 20MB (for $99) to 240MB (for $1,999). If performance is a big issue, consider the UltraDrive S series, which offers faster access time with on-board hardware caching. Prices start at $679 for a 40MB model. Other laudable hard-disk drives are available from manufacturers **Rodime, Cirrus,** and **SuperMac.**

Adding a CD ROM drive to your Mac can open up a new world of information. There is a growing library of comprehensive databases, typefaces, clip art, and multimedia applications available in CD ROM format.

The **NEC Intersect CDR-72 CD ROM Reader**, one of the fastest on the market, retails for $999 and is widely available at discounted prices via mail order. You will need a $99 interface kit.

The CDR-72, an easy-to-use plug-and-play product, includes a headphone jack so you can listen to compact discs if you tire of searching a CD ROM database.

—Jon Pepper

LAW

Programs That Let You Be Your Own Lawyer

If you want to trim your spending for lawyers' fees, you might consider drawing up certain simple legal documents yourself with one of the several self-help legal programs on the market.

Two sampled by *Nation's Business* are **It's Legal** and **Home Lawyer.**

Even if used only once in lieu of counsel, either program could save a business owner more than its purchase price.

It's Legal is $49 from the publisher; Home Lawyer, sold in stores, lists for $119.95. Both programs run nicely on stripped-down PCs and are as easy to install and use as software gets.

Keep in mind, however, that these programs have limited capabilities.

It's Legal is at its best preparing basic wills and living wills. For tax reasons, nonetheless, those with net worth of $600,000 or more will want to entrust will-making to an estate planner and a lawyer. The program also works well for promissory notes, residential or commercial leases, and documents granting or revoking general or special powers of attorney.

Home Lawyer prepares all of these documents except commercial leases, and it also can churn out offers of employment and employment agreements, independent-contractor agreements, bills of sale, bad-check notices, and defective-product complaints.

It's Legal is available directly from the publisher, Parsons Technology, (800) 779-6000.

Home Lawyer is available at Egghead Software stores and other selected retail and mail-order outlets.

To trim lawyers' fees, *consider drafting simple legal documents yourself with PC software.*

ACCOUNTING

Opinions From Other Users

One aspect of choosing accounting software is finding out what other users think; they, after all, have lived with their choices and have a unique perspective. Finding those other opinions, however, could take a lot of time.

Someone has done it for you. Computer Training Services, a research firm in Rockville, Md., has sold evaluation tools to businesses choosing accounting software for some years. For the past three years, it has surveyed its clients for their reactions to popular microcomputer accounting programs. The results of the third survey are now available.

The survey looks at several of the more popular programs, including ACCPAC BPI and Plus, CYMA, Harmony, Macola, Open Systems, RealWorld, Solomon III, Great Plains, Libra, MAS90, Platinum, and SBT. They are rated according to performance, stability, flexibility, ease of use, documentation, and technical support.

Comments from users are anonymous and blunt, ranging from "tech support seems to be getting worse" to "easy for a user to learn and operate."

Many of these experts have installed more than one of the systems, so much experience is condensed in the study.

CTS President Sheldon Needle calls the study "an opportunity for the consultant or end user to find out who is moving up and who is slipping in the eyes of professionals who work extensively with these packages."

The survey is available for $59 from CTS, 11708 Ibsen Drive, Rockville, Md. 20852; (800) 433-8015.

MAILING

Using Pony Express For Letters And Packages

Now that postal rates have gone up, you're likely to be bombarded with advertisements for software to help minimize the pain of the increases. No doubt much of this software will be quite good. Right now none is a better value than **Pony Express Version 1.50.**

Pony Express can help you determine the most effective way to send letters or packages, based on cost and speed. Just enter the ZIP code of your mail's destination along with its weight and value. Next, indicate whether you desire add-on services such as insurance, COD payment, or special delivery. The program will display costs and estimated delivery times of all service options offered not only by the Postal Service but also by United Parcel Service. Then you can choose the least expensive way to have your mail delivered when you want it to arrive.

Pony Express also makes it fast and simple to quote shipping charges to prospective customers.

Pony Express takes no more than five minutes to install, and it runs on a bare-bones computer system: an IBM or compatible PC with DOS 2.0 or higher and at least 256K RAM. It's also easy to master the program, which operates either independently or as a RAM-resident utility using about 9K of memory.

Best of all, Pony Express is shareware. You can download it via modem from CompuServe, Genie, Exec PC, and other major commercial bulletin boards or from the publisher's own board: (913) 642-9895.

If you like the program, you can register your copy and receive upgrade information for $50. If you don't have a modem, you can get an evaluation copy for $10 by writing Melisco Marketing, Inc., 9719 Ensley Lane, Leawood, Kan. 66206-2246, or by calling Melisco at (800) 642-5045.

—Albert G. Holzinger

BOOKS

Back To Basics

As rapidly as the field of personal computers is growing, we sometimes forget that there are plenty of folks who would like a grounding in the basics. Several recently published books do just that in quite different ways.

A Desktop Guide to Computers in Business, by Patrick Cargill (Green Tree Press, St. Joseph, Mo.; $29.95), starts absolutely at the beginning. Cargill defines everything about the hardware and surveys the major categories of business software. He finishes with recommendations on how to add computers to your business.

Early on in the PC revolution, Peter McWilliams wrote a book about the joys of word processing on the computer. It was irreverent, breezy, and informative. He followed with *The Personal Computer Book*, which covers the same ground as Cargill's book. McWilliams has now revised *The Personal Computer Book* for the '90s. It is sprightly, irreverent, and informative. The humor helps the information because, let's face it, computers are not inherently funny. From Prelude Press (Los Angeles), $19.95.

If you plan to be a regular user of dBase IV, you might like *Help for dBase IV Users . . . and Would-Be Users*, by Kay Inaba (Xyzyx, Canoga Park, Calif.; $27.95). The orientation is horizontal—more natural for use around a computer—and the information is more usefully arranged than a standard computer manual. Inaba has done many books in other fields and contends that there are ways to arrange information to make it easier to absorb. Inaba chose a tough one with dBase and seems to have succeeded. NB

Family Business

Educating those around you; coping with tough times; the ripple effects of other firms' troubles.

COMMENTARY

Tell Your Story . . . Again And Again

By Sharon Nelton

As a family-business owner, you may have breathed a partial sigh of relief when the tax code's Section 2036(c) was repealed last fall. Its repeal restores the "estate freeze" as an estate-planning technique in family businesses.

But as you know, family firms aren't out of hot water. Experts say the 1990 tax law still poses many problems for business owners who want to preserve the continuity of their businesses by passing control to their children. According to a report last month in this magazine, gift and estate tax rates for family firms will still run about 50 percent, and some companies may still have to be liquidated for payment of taxes.

PHOTO: TING CHIRO

Get out the word about what family firms contribute to the local economy.
—Sharon Nelton

Why should this be so? Many people, including some members of Congress, have a way of wanting to reach into the pockets of those they see as rich—and some family-business owners are. Lawmakers and the public are also tempted by the perception that some rich business owners might abuse the tax laws in an effort to pass family wealth on to their children.

Still another factor makes it alluring to sock it to family-business owners: the idea that their wealth will make undeserving kids rich. And in some cases, that's probably true.

How can you protect your firm from death-by-estate-taxes besides avoiding wealth or raising kids so perfect that Congress will want *them*, not the IRS, to be your heirs?

Work for laws that are fairer. One way to do this is to support such organizations as the U.S. Chamber of Commerce, which spearheaded the campaign to restore the estate freeze, and Family Businesses of America, which is based in Wichita, Kan., and is dedicated to preserving family firms.

Even more crucial, however, is the need to educate those around you about the importance of family business to your community. This means telling the story of family business over and over to opinion leaders where you live—lawmakers, editors, teachers, civic leaders, and other business people. Enlist the help of your local chamber of commerce. Make sure opinion leaders know what's at stake for the community if a family business must be sold because a desperate family needed the money to pay estate taxes.

For background, read *Managing By the Numbers*, by Christopher Meek, Warner Woodworth, and W. Gibb Dyer Jr. (Addison-Wesley, 1988).

Get out the word about what family businesses contribute to the local economy in terms of employment and purchases. Show what the families who own those businesses contribute to your community's philanthropic efforts, not only in dollars but also in leadership.

Declare a Family Business Week as an educational vehicle for adults and young people. Make it hard for your community to imagine doing without any of its family-owned businesses.

You need to create a constituency, not just of family-firm owners but of an entire community that will support and protect family businesses because they are good for the community.

There's no better time to start than now. Then you'll be ready when the lawmakers start to mess around with your taxes again. And they will.

PLANNING

Recession Means Agony, Opportunity

By Craig E. Aronoff and John L. Ward

Family businesses have special strengths and special weaknesses. Both are magnified during economic downturns.

Recessions can create opportunities for certain family businesses. The long-term perspective of family firms serves particularly well through tough economic times. But downturns can inflict particular anguish as well.

First, let's review the opportunities. A well-managed, committed family business can gain competitive advantage during a recession. While public companies or highly leveraged entrepreneurial firms slash budgets to please shareholders and creditors, the family company can resolutely sustain strategic expenditures.

From research comparing family and nonfamily companies, we know that family firms cut research, development, and marketing investments less during downturns. Continued investment reflects long-term perspectives that can help family firms gain some market share and increase future strength.

Conservatively managed family-owned companies can use financial resources to make strategic acquisitions at attractive prices when economic circumstances make others eager for cash. Bargains may be available in the form of inventory, equipment, expansion space, or whole businesses.

Recognizing that good people are scarce and valuable, family firms treat employees differently in recessions. They are more reluctant to let people go.

Loyalty and investing for the future are important strengths of a good family business's culture.

In short, the family owners can and often do sacrifice their own current profits in order to build a stronger business for better economic circumstances to come.

But the pressures on family-business owners during a recession can be incredible. The decisions are harder, more se-

rious, and more lonely. Risk, never an easy matter to deal with in family businesses, increasingly becomes an issue. Family-business executives regularly deal with matters involving both the heart and the head. During rough economic times, distinguishing between logic and emotion is more necessary and even more difficult than in less demanding economic environments.

When economic pressures cause serious consideration of a reduction of staff, for example, the family firm faces many tough questions and concerns, which might be expressed in various ways:

- "We hire lots of folks who are related to other employees. How would laying off employees' relatives affect those who remain?"
- "We're a leader in our community—what will people say? Don't we have a special responsibility to—and visibility among—our neighbors?"

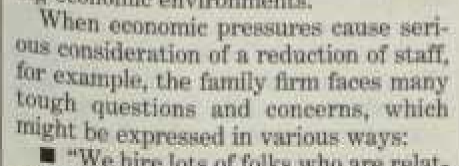

ILLUSTRATION: DAVID CHEN

- "How will people know that this decision was justified? We don't share our financials publicly, and, as owners, we will still live a good lifestyle."
- "If we choose to cut everyone's pay instead of cutting jobs, how will it affect family members' standard of living? Our resources are tied up in the business, and we don't have much of a personal financial cushion."

Other pains also sting more sharply in a recession. Family employees who fail to carry their fair share of the load are more noticeable and worrisome. That personal guarantee on the bank loan haunts more.

Since many family-business owners are so dedicated to the future, decisions to cut back in marketing or computer installations or new-product development are tougher. How soon do you make those decisions? How do you know you're thinking objectively about them?

Struggling to deal with recession provokes other kinds of thinking: "Maybe we could support overhead by taking on more marginally priced business. Maybe we should seek other kinds of less related business to keep the place busy." At times, it seems any business can help. More often, additional business of this type is distracting and actually reduces profit because it is more costly to produce and handle than originally thought. Unfamiliar with products, processes, or customers, your people and systems aren't prepared.

Here are several recommendations to help you cope with the agony of these decisions if the recession has affected your business—or to help you prepare for that eventuality:

First, avoid family dilemmas by being sure all family members are fully qualified for their positions in the company. In good times, we don't look at this issue so closely.

Second, encourage all family members to maintain reasonable lifestyles and practice personal saving from their paychecks. The business may not always be able to afford to increase salaries or even keep them level.

Third, review your commitment to family-business ownership and continuity. There's no better time to articulate your vision and resolve than in tough times.

Fourth, practice explaining to all employees that everyone is more secure when the business is healthier. Share information at management and employee meetings to earn their trust.

Finally, and most important, get help—from two sources: your board of directors and your advisers.

The tougher the business decisions are, the more reluctant many business owners are to ask for help.

The decisions and questions we've raised here are best addressed with the help of group input from a team of objective supporters.

In tough times, your advisers and directors really demonstrate their quality and their value. They help you defeat your most dangerous enemy—loneliness and isolation. Do not allow the depths of recession to become your depths of despair.


PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

Mark Your Calendar

March 8-9, Waco, Texas

The Annual Family Business Conference sponsored by Baylor University. Families have the opportunity to meet individually for counseling with family-business experts. Contact Nancy Bowman-Upton, Director, Institute for Family Business, Baylor University, P.O. Box 98011, Waco, Texas 76798-8011; (817) 755-2265.

March 9, New York

"Women in the Family Business," a seminar focusing on such issues as communication, power, and risk-taking. Write or call LaVaun Eustice, Assistant Director, Management Institute, New York University, 48 Cooper Square, Room 108, New York, N.Y. 10003; (212) 998-7218.

March 21-23, Pebble Beach, Calif.

"Your Family-Owned Business: How To Build It, Manage It, Make It Last," a conference sponsored by the Philadelphia accounting firm of Drucker & Scaccetti. Call (800) 521-1818.

April 7-10, Aspen, Colo.

The Aspen Family Business Conference focuses on 10 essential qualities shared by successful family businesses. Contact the Bork Institute for Family Business, 117 Aspen Airport Business Center, Suite 101, Aspen, Colo. 81611; (303) 925-8555. To be repeated July 18-21 in Snowmass Village, Colo.

April 14-17, Philadelphia

"Chief Executives and Senior Officers of Family-Held Businesses," a seminar for owners and managers of family firms. Contact the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

How To Get Listed

This list of family-business events includes national and regional activities that are open to the public. Send notices three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

CASE STUDY

A Big Firm's Stake In Family Business

"Those honchos at headquarters keep coming up with rosy sales projections and glowing strategic plans," lamented Marilyn Green. "Don't they know our entire distribution effort is in the hands of family businesses?" As director of dealer development for GlassKing, a major supplier, Marilyn seems to be spending more time coping with family infighting than she does on new product launches or gaining market share.

Each year, the concerns of her distributors—most of them independently owned family firms—grow more complex and alarming. Succession planning, sibling rivalry, and partnership squabbles have replaced sales growth as a priority. A particularly devastating blow came when Marilyn's West Coast representative called with the news that the head of GlassKing's top dealership, an $80-million company, is involved in a bitter divorce that is consuming virtually all of his energy. Sales have been dropping like a rock. "I'll bet the corporate strategists didn't put this one in the five-year plan!" muttered Marilyn.

ILLUSTRATION: DAVID SHEN

Lately, the consequences of unresolved family problems have hit GlassKing's bottom line harder than in the past. Marilyn first noticed a complacency among dealers at an annual sales meeting five years ago. They were a little grayer, a little heavier, and clearly less enthusiastic about rapid growth. "They've peaked," she recalls thinking, "and where are all the young people?"

Marilyn remembers when these owners were the best in the business. Now, faced with weekly reports from sales reps about family quarrels and about owners "who think they will live forever," Marilyn is asking: "How did we get into this mess? And how do we get out?"

PHOTO: ©TOMAS

Remember The Advantages

John A. Davis, executive director of the Owner Managed Business Institute, in Santa Barbara, Calif.:

Marilyn Green has her hands full contending with family conflicts in GlassKing's dealership network and the reluctance of older dealership owners to retire. However, she should not lose sight of the advantages that family dealerships offer to a large company like hers.

All market share is local, in my view, and family dealerships generally serve local markets better because of their connection with the community. Their ties with customers and their families can span generations and help the supplier dominate markets for decades. The family dealership also often contributes a great deal of capital that the supplier would otherwise need to invest.

If GlassKing is committed to family dealerships for its distribution system, it should take steps to preserve them for the long haul.

Recognizing that the supplier-dealer relationship has some built-in conflicts, Marilyn should not try to work directly with the dealership families to facilitate family conversations and planning. Families won't be open to talk about their issues and plans in front of GlassKing management. Instead, she should sponsor educational programs and consultation services to make sure that the predictable problems of managing a family business are addressed. In particular, I would recommend a program to introduce dealers and their families to ways of managing a family company and handling the process of succession.

Marilyn should also encourage each dealer family to create a family council—a discussion group that would explore the family's interest in the business and family issues that arise because they have a business. These discussions are best facilitated by a consultant familiar with family-business issues. Setting up such a program of education and family discussions is not inexpensive. But how much would GlassKing lose if just one major dealer went under?

PHOTO: ©WADE THRALL

Find Ways To Be Supportive

John E. Messervey, principal consultant for the National Family Business Council, in Northbrook, Ill.:

Top management of many large companies that depend on independent dealers, distributors, and franchisees often say, "We're one big happy family." And, like real families, they run for cover when the conflict starts.

In one sense, you can't blame them. Until family-systems theories merged with sound business practice, there was little help available. Although the stakes of unresolved family conflict are higher than ever for large companies that deal with family firms, there are now some solutions.

Marilyn should keep in mind that succession is almost always a once-in-a-lifetime event, yet we expect the business owner to hit a home run the first time at bat. In reality, most family-business owners have few models to follow. GlassKing can help by finding successful succession stories within its dealer network and sharing those stories with all its dealers.

Moreover, GlassKing must be committed for the long haul. Succession planning is a process that takes years. Marilyn could also create a "family-business succession audit," asking each dealership a few questions: How old are your owners? Does the chief executive have a designated successor? Do you have a *written* succession plan? (If it's not in writing, it doesn't exist!) Armed with this information, Marilyn will know which dealers need the most assistance with succession.

GlassKing could also add a family consultant to its corporate team. However, GlassKing will need to be patient and realistic in its expectations. No consultant should be expected to undo 30 years of family behaviors in a couple of annual meeting presentations. The key is to create awareness of the issues and to present potential solutions.

Finally, GlassKing must respect the families' privacy and not become involved in emotional matters. While GlassKing can provide resources to help families deal with family issues, it should restrict its relationships with its dealers to business issues.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute.

Meeting Consumer Needs Of The '90s

Health and safety concerns of today's consumers are creating opportunities for franchisors and franchisees.

By Meg Whittemore

Products and services geared to consumer interests in health, safety, and the environment are playing an increasingly important role in the franchising industry of the '90s.

"People are returning to some basic values," says Aaron Shingler, a Lanham, Md., consultant specializing in franchise and small-business development. "That means getting better value for their dollar, taking care of their health, their home, and giving something back to the environment."

The driving force behind the back-to-basics movement, says Shingler, is made up of consumers 35 to 60 years old, many of whom are considered baby boomers—those born from 1946 to 1964. Through their purchasing preferences, in fact, the baby boomers are causing redirection of the kinds of products and services that franchises offer.

"The baby-boom generation is more likely to spend money," says George Moschis, director of the Center for Mature Consumer Studies, at the State University of Georgia in Atlanta. "They don't have the same experiences as their elders, namely, living through the Depression, and so they are less inclined to save," he says.

That's good news for franchise business owners, because baby boomers represent a significant customer base today and for later years. (See "The Future Grows Older," on Page 48.)

An important trend fueled by baby boomers is a preference for healthful foods. Smart fast-food franchisors are revamping their menus to give customers what they want. For example, McDonald's Corp., based in Oak Brook, Ill., now offers a host of options such as salads and reduced-fat hamburgers.

Burger King, based in Miami, and Wendy's International, headquartered in Dublin, Ohio, have made similar menu changes in attempts to enlarge their share of what the National Restaurant Association estimates to be a $62 billion fast-food market.

For Roger Bassett, president of Bassett's Original Turkey, headquartered in Philadelphia, offering healthful fast food is nothing new. In the mid-'80s, Bassett introduced his Original Turkey sandwich to Philadelphia lunch crowds, and the result was the formation of a franchised business that sells freshly cooked turkey meals priced at $4 to $6.

"There are copycats popping up all over trying to imitate what I've been doing for seven years," says Bassett. Each of Bassett's nine locations, all in the Philadelphia area, carves up about 25 turkeys a day to serve about 250 sandwiches. Average 1990 sales for a 500-square-foot store were $450,000. Like most food franchises, Bassett's is a business-format franchise; it supplies not only the trade name and product or service but also the entire business-management system.

Original Turkey franchise locations are limited to high-traffic areas in shopping malls and office parks. Expansion plans include the Northeast and Florida.

Another contender for the customer's fast-food dollar is New Boston Chicken, based in Boston. Again, niche marketing is behind the concept. New Boston Chicken offers roasted chicken, mashed potatoes, butternut squash, baked beans, corn, and freshly baked goods. No additives or preservatives are used. "We've married the concept of fast food with wholesome nutrition," says George Naddaff, chairman of the 5-year-old business. There are 12 franchised and four company-owned units throughout New England, and plans call for 69 locations to open this year in New York, Philadelphia, Washington, Chicago, Detroit, and throughout the Southeast.

Systemwide sales totaled $17 million last year and should increase in 1991, Naddaff says. "Our immediate success here in New England convinces us that Boston Chicken will play in Kansas and everywhere else."

PHOTO: T. MICHAEL KEZA

Healthful food: *Consumers' growing preferences for more nutritional menu offerings mean greater sales for franchised firms such as Philadelphia-based Bassett's Original Turkey.*

Opening a fast-food franchise is not inexpensive. Bassett's Original Turkey costs $90,000 to $174,000, depending on the location, improvements, and the amount of working capital necessary. Royalties total 5 percent of gross monthly sales, and the advertising fee is 0.5 percent of gross sales.

A Boston Chicken franchise can cost up to $350,000, depending on location and other variables. Its 4-percent monthly royalty and 5-percent advertising fee are based on gross sales.

Services and products that help homeowners live safer and more environmentally sensitive lives are catching on

quickly. For example, Soapberry Shop, a franchise based in Rexdale, Ontario, Canada, and expanding into the United States, offers biodegradable, nonpolluting skin-care products and bath treatments for men and women. Soapberry's founder, Natasha Rajewski, became involved in environmental concerns when the lake near her summer home, in Ontario, became polluted. She has made certain that her products would not be environmentally harmful and that they would be packaged in recyclable containers. "People want to do their part to save the environment," says Rajewski. "They want to buy environmentally friendly products."

In the United States, Soapberry franchises' customers pay $2.25 for a standard-size bar of bath soap and $2.10 for a 2-ounce bottle of shampoo. Start-up costs for a Soapberry Shop franchise range from $60,000 to $100,000.

Another entrepreneur who urges consumers to be concerned about the environment is Perry Ecksel. He and his brother Bart operate Advantage Radon Control Centers, a franchise that detects and removes radon gas.

"Consumers are demanding cleaner, healthier places to live," says Perry Ecksel, CEO of the company, "and entrepreneurs who provide solutions to those demands are going to be big winners in the years to come."

> **The baby-boom generation is more likely to spend money. They don't have the same experiences as their elders, namely, living through the Depression.**
>
> —George Moschis

Advantage Radon Control performs tests to determine if radon gas is present in homes. The service includes a home inspection where air samples are taken, followed by lab tests done at the company's headquarters in Southampton, Pa. The fee ranges from $100 to $200, depending on the length of the examination. If radon gas is detected, the company eliminates the gas and seals off its points of entry, a procedure that costs about $1,200.

It costs $17,500 to join the Advantage Radon Control Centers franchise program. The company charges a monthly royalty fee of 8 percent of gross sales.

Maintaining a safe home environment is the basis behind yet another franchised business, Gourmet Garages!, Inc. Based in Bradenton, Fla., Gourmet Garages! franchises organize the potentially dangerous clutter found in many garages. "Unfortunately, most people use their garage as a household dumping ground," says John Hacker, company founder. "A garage is the most common storage place for a wide variety of hazards, from sharp gardening equipment to toxic chemicals."

Hacker's system of modular cabinets, shelving, and pegboard is designed to turn wasted garage space into attractive, protected storage areas. "This is the last frontier in home decorating," he says.

An average installation costs the homeowner $1,500. A Gourmet Garages! franchisee can do two installations daily. Start-up costs are $80,000 to $100,000, depending on inventory and working capital required.

The challenge that many franchised businesses foresee throughout the decade is to offer quality, service, and attention to customers' changing needs. Successfully meeting those consumer needs will ensure franchising's position as a dominant player in the small-business arena in the 1990s.

PHOTO: T. MICHAEL KEZA

Healthier living: *Brothers Perry and Bart Ecksel operate Advantage Radon Control Centers, a Southampton, Pa., franchised firm that locates radon in homes and seals off the gas's entry points.*

The Future Grows Older

By Les Rager

Significant demographic trends present unique opportunities for franchising in the coming 25 years. The fact that the population is aging is not news, but the *number* of soon-to-be-senior citizens means franchisors can expect a very different customer base in the future.

In the 1990s and beyond, older Americans will make up a larger market for products and services than they do today. Some statistics: According to the U.S. Census Bureau, more than 53 million people—about 21 percent of the U.S. population—are now 55 or older. By the year 2010, 75 million, or approximately 26 percent, will be 55 or older, and one in seven will be 65 or older.

The Conference Board, a New York-based business-research organization, says those 55 or older currently control more than 50 percent of this country's discretionary income and 80 percent of all financial assets of savings and loan institutions.

George Moschis, director of the Center for Mature Consumer Studies, at the State University of Georgia in Atlanta, says success will belong to those businesses that anticipate the needs of the aging consumer. "Franchisors have to look at how the changes in the demographic makeup of this country are likely to create needs for certain products and services," he says.

Research conducted through the center, Moschis says, suggests that the market for products and services for seniors in the coming years will be different from what it is now because senior boomers will have fewer children; 20 percent will have one child, and another 20 percent will have no children. "That means that this change in demographic composition is going to require a larger number of care providers for older people," says Moschis.

The implications of Moschis' research are clear: Franchisors must direct the thrust of their products and services toward this group to ensure success. Likewise, anyone thinking of *buying* a franchise should make sure the franchise has a strong appeal to the older population.

Following are products and services that attract a mature customer. Most offer convenient to-your-door delivery.

Home-care services such as visiting doctors and nurses, prescription delivery, physical therapists, and general companion care givers will be popular. The rule of thumb for this category is to focus on any type of service that makes life easier for older people.

Rental businesses that offer recreational vehicles and medical equipment for home use will gain in popularity.

Take-out food will continue to have a strong showing. Older people spend more money on food at home than they used to, but they don't want to cook as much as they did when they were younger.

Independent living centers may be a

boom business of the future for franchising. Also called case-management businesses, living centers resemble today's retirement communities, but they are turnkey operations that offer the same sets of conveniences and services in all locations. They are affordable facilities with cluster housing, so residents can have independence and privacy without feeling isolated. On-site services include emergency medical care, hair salons and other personal-care facilities, and transportation. Nearby are grocery stores and health-care facilities. Entertainment is available on the premises and in the vicinity.

Home remodeling services will flourish. The senior boomers will have more money and a desire to stay at home rather than move frequently. They will choose a lifestyle, invest in a home, and stay there. Choosing to repair rather

People want to do their part to save the environment. They want to buy environmentally friendly products.

—Natasha Rajewski

than sell is already a strong force and will continue in coming years.

For would-be franchisors and franchisees, there are a few guidelines that may help in your choice of a business. Consider if the franchise offers its customers a secure feeling. Older people are usually averse to risk, and anything that does not give them a certain level of comfort is likely to fail.

Consider franchises whose products and services can help older consumers with their changing physical needs; examples include eye-care and hearing-aid businesses.

Finally, be aware of what the older consumer needs, wants, and will pay for. Keep in mind that older Americans are healthier and financially more secure than ever before and are attracted to products and services that provide comfort, convenience, reliability, security, and a sense of self-worth.

Les Rager is president of Rager and Associates, a franchise and small-business consulting firm based in Roswell, Ga.

Growth Of Franchise Sales

(Sales In Billions)

	1989	1990	1991
Total Sales By Franchises	$677.9	$714.5	$758.5
Sales By Business-Format Franchises	$192.9	$213.8	$232.9
Sales By Product And Trade-Name Franchises	$484.9	$500.7	$525.6

Sales Growth For Business-Format Franchises

(Sales In Billions)

	1989	1990	1991
Restaurants	$70.1	$77.8	$85.4
Retailing, nonfood	26.7	29.2	31.3
Hotels and motels	21.6	23.8	25.9
Business aids and services (includes real estate, computer services, printing, accounting)	16.9	18.6	20.7
Automotive products and services	12.5	13.8	15.4
Convenience stores	14.3	14.3	14.9
Retail food, nonconvenient	10.0	11.7	12.1
Truck rental	6.9	7.3	7.7
Construction, home improvement	5.8	6.4	7.09
Misc.: beauty salons, fitness centers, others	2.0	2.3	2.2
Educational products and services	1.7	2.03	2.25
Rental equipment	0.69	0.75	0.80
Laundry and dry cleaning	0.36	0.40	0.45

Source: *Franchising in the Economy 1989-91*, an annual study of franchising by the International Franchise Association Educational Foundation in cooperation with Horwath International, a management and accounting firm.

Expos, Seminars, And Hearings

The International Franchise Association (IFA) each year offers franchising expositions throughout the country featuring exhibits by about 100 franchises. The expos are open to the public. The $5 admission fee, payable at the door, includes two IFA-sponsored expo seminars—one on how to buy a franchise, the other on how to franchise an existing business. The IFA's World of Franchising Expos this year are set for:

March 2-3, New Orleans
April 13-14, Philadelphia
May 4-5, Pittsburgh
June 15-16, Atlanta
July 27-28, Chicago
Aug. 24-25, San Francisco
Sept. 28-29, Dallas
Nov. 2-3, Detroit
Nov. 23-24, Boston

For more information, contact the expo producers at Blenheim Group, 11331 Louisiana Ave., Suite 211, Winter Park, Fla. 32789; (407) 740-0018.

Women In Franchising, which helps women and minorities enter franchising, is offering a half-day seminar through a national video conference to 300 cities for $89. For the conference's date and locations, contact Women In Franchising, 175 North Harbor Drive, Suite 1311, Chicago, Ill. 60601; (800) 222-4943.

The House Committee on Small Business, chaired by Rep. John J. LaFalce, D-N.Y., is expected to resume hearings in March on allegations of fraudulent practices by some franchisors. Franchisee complaints to the committee prompted a staff report—*Franchising in the U.S. Economy: Prospects and Problems*—and a committee hearing last September. Such complaints have since risen, says committee economist Dean Sagar: "The concern now is whether these cases represent a new predatory and abusive approach to franchising or ... are a response to the recession." When revenues decline, a small minority of franchisors may cut corners or ignore obligations to franchisees.

Recession increases pressure on all businesses, says Neil Simon, senior vice president of the International Franchise Association, but he sees no evidence of "widespread turmoil in franchising." NB

ENVIRONMENT

Small Firms Pay For Clean Air

Compliance costs for the strict new clean-air standards will fall heavily on small business.

By Bradford McKee

PHOTO: DICK THAYER

Changing habits: *Substitutes for air-polluting chemicals are being tried at John Evans' printing plant.*

Printer John Evans Jr. in Tonawanda, N.Y., is trying something different these days to keep his presses clean. He's using a cleaner made from orange peels. If it does the job, it will replace the more air-polluting solvents toulene, xylene, and acetone that he and most other printers have been using to remove ink from printing-press parts. His experiment is an effort to comply with new federal air-quality standards.

Evans' family-owned company, Sterling C. Sommer Inc., also has replaced a combustible ink-roller wash that contains naphthalene, another air pollutant. Evans says the substitute is less toxic and less flammable.

Isopropyl alcohol, an additive used by most printers in printing fluids other than ink, is also on its way out at Sterling C. Sommer. Evans says the company is trying out various substitutes for isopropyl alcohol, whose vapors contribute to smog-producing ozone in the atmosphere. (Ground-level ozone is distinct from stratospheric ozone, which shields Earth from excessive ultraviolet radiation.)

Like small firms of many kinds—bakers, painters, dry cleaners, gasoline stations, and other printing companies—Evans' firm is changing habits of many years to prepare for implementation of the recently enacted amendments to the nation's Clean Air Act.

After a decade of debate, Congress wrote a huge web of additional mandates into the Clean Air Act, which was first passed in 1970. The revamped statute seeks ambitious reductions in urban smog, acid rain, and toxic air pollutants, and it is designed to eliminate use of ozone-depleting chemicals.

Because of the law, more firms—and more small firms—will be regulated as "major" sources of air pollution. Thus, a wide variety of small companies soon must start complying with environmental regulations for the first time.

Compliance with the 1990 clean-air mandates will be costly. Analysts in the Bush administration predict that the newest provisions to the clean-air law could cost business more than $25 billion per year, on top of the $32 billion per year business already spends on clean-air compliance.

Evans himself is spending more for clean air. For example, the environmentally safer chemicals that he is testing are more expensive than those they replace, he says, and sometimes they present production drawbacks. The cleanser derived from orange peels, for example, requires more drying time between printing jobs.

Small businesses do face particularly steep costs from the clean-air law, says Mary Bernhard, manager of environmental policy at the U.S. Chamber of Commerce, in Washington, D.C. "Because they're small, and [because] economies of scale aren't as great, the costs are going to be disproportionately larger."

The U.S. Environmental Protection Agency (EPA) only recently began writing the new clean-air regulations, and so economists' estimates of compliance costs are sketchy. However, Joseph Curreri, air-quality analyst at ENSR Consulting and Engineering, an Acton, Mass., environmental firm, says that among the costs of abating air pollution, "the biggest impact will come down to paperwork." To that he adds what Evans says about clean-air compliance: Business owners who plan seriously for compliance will best absorb the shock of the Clean Air Act.

One businessman getting a head start is Jeff Shumway, who recycles Freon at Ecotech Autoworks, his McLean, Va., service station. He vacuums the Freon out of a car's air conditioner, sending it into a machine that eliminates the liquid's impurities. Shumway in fact is anticipating an EPA rule—expected to be drafted by November—that would require auto repairers to recapture and recycle the Freon in automobile air conditioners during repairs. Freon is a source of chlorofluorocarbons, or CFCs, which find their way to the stratosphere and destroy protective ozone. The new Clean Air Act is phasing out the use of most CFCs by 2000.

A Freon-recycling machine costs $2,000 to $8,000, Shumway says. "I'm hoping a replacement gas [to take Freon's place] becomes viable" so that recycling won't be necessary, he adds, but so far "there's not a compatible gas that does the same job."

Appliance repairers will have to find ways to recapture Freon from the cooling coils of refrigerators and home and commercial air conditioners, says the U.S. Chamber's Bernhard. "CFCs are going to have to be captured," she says. "You can't allow the Freon to escape."

Under the new clean-air provisions, a firm can obtain a six-year extension for meeting the required maximum achievable control-technology standard by cutting its toxic air emissions by 90 percent of 1987 levels within three to four years of enactment of the amendments.

Roll Technology Corp., a Greenville, S.C., company that does chrome-plating and grinding on cylindrical metal rolls,

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ENVIRONMENT

may receive an early-reduction credit. J.F. Tucker, Roll Technology's executive vice president, says his firm, with sales of $3 million a year, has invested at least $180,000 in fume scrubbers, which reduce the plant's chromium emissions by 99 percent.

Tucker's expense is in the middle range for a chrome-plater, says William Sonntag, clean-air analyst for the National Association of Metal Finishers, in Washington, D.C. Pollution-control equipment can cost a metal finisher from $50,000 to $500,000, says Sonntag. Monitoring emissions at such plants can cost $5,000 to $6,000 per test, he says, and tests often have to be done more than once. "It's a very serious financial commitment" for smaller metal-finishing firms, he says.

PHOTO: CARL MILLER—PICTURE GROUP

Fume scrubbers *cut chromium emissions 99 percent at Roll Technology Corp., a Greenville, S.C., chrome-plating plant, says Executive Vice President J.F. Tucker, left, shown with maintenance supervisor Billy Brown.*

The chromium that Tucker uses is just one of 189 hazardous air pollutants the new law targets; their current levels are to be cut by 90 percent. The list of targeted substances includes formaldehyde, used at most funeral parlors; perchloroethylene, which is used in dry cleaning; benzene, a compound in gasoline; ethylene oxide, which is used in hospital and laboratory sterilizers; and toulene and xylenes, the solvents that Evans is trying to work around at his printing shop.

Companies that give off more than 10 tons per year of any of these pollutants, or 25 or more tons of any combination of them, will have to install the best *achievable* (which may be less than the best *available*) emission controls by 2003. Achievable controls are whatever are used by the cleanest 12 percent of companies in a given industry group.

New companies and new operations within companies will have to meet tougher standards. Any new emission source will have to have state-of-the-art pollution controls; the new source must be as clean as the cleanest sources in its class.

Businesses must offset any new or increased emissions volume with even greater reductions of emissions volume. In some smog-plagued areas such as Los Angeles, says Bernhard, the offset ratio will be 5 to 1. For instance, for every ton of new emissions that would result from a company's expansion, the company must somehow cut five tons of emissions before regulators will approve the expansion.

These emission offsets are part of the law's larger campaign to reduce urban smog by cutting levels of its precursors: ozone (formed by nitrogen oxides and hydrocarbons reacting in heat and sunlight), carbon monoxide, and airborne particles of soot and dust.

EPA has designated more than 100 U.S. cities as "nonattainment" areas, meaning that there are too many days when they don't meet air-quality standards. These areas will have to do more to meet those standards by stricter regulation of both fixed and mobile sources of air pollution. The areas with the most serious air-quality problems have 20 years to meet new Clean Air Act standards; others will have as few as three years to comply. Failure to meet ongoing emission-reduction targets could mean a ban on building permits until the area meets air-quality standards.

Among the costlier consequences of urban-smog reductions on small companies are these:

■ Gas stations will have to install hydrocarbon vapor-recovery devices on each gas pump. Susan Hahn, a spokeswoman for the American Petroleum Institute, in Washington, D.C., says installing vapor-recovery equipment can cost $27,000 to $30,000 for a station with nine pumps, plus $3,000 to $4,000 a year to maintain the equipment.

■ Auto-body paint and repair shops may have to spend $100,000 per shop for equipment to catch hydrocarbon emissions from spray paint, according to the Washington-based Clean Air Working Group.

■ Furniture makers may need incinerators to burn off releases of hydrocarbons from spray-paint booths. Joe Gerard, vice president at the American Furniture Manufacturers Association, in Washington, cites one midsized furniture firm that could spend more than one-fourth of its $11 million in annual sales on the capital costs of new pollution-abatement equipment, not including "significant" annual upkeep. Typical furniture makers have profits of about 3 percent, he says.

"There's a serious cause for concern," Gerard says, that EPA technology requirements will run furniture makers out of business. Still, he says, "we're hopeful that [affordable] technology will be there to prevent the worst from occurring."

■ Restaurants in smog-troubled areas will have to install containment units to collect hydrocarbon emissions from charcoal grills.

■ Midsized and large bakeries will have to control the hydrocarbon ethanol that is produced by yeast while dough is fermenting and is released during baking. Bakeries that are major sources of hydrocarbons must install thermal-oxidation devices or catalytic converters to burn off or neutralize the compounds.

Depending on a bakery's size and number of ovens, the capital costs of such pollution-control equipment range from $114,000 to $424,000, according to a cost-effectiveness study by California's South Coast Air Quality Management District Board. Operating this equipment involves maintenance, energy, taxes, and insurance amounting to an estimated $50,000 annually, and the cost of retrofitting alone ranges from $500 to $6,500, the board's study shows.

■ Printing shops use many chemicals that contribute to ozone formation. Tom Purcell, head of environmental programs for the Printing Industries of America, in Alexandria, Va., says the least costly emission-control devices for

printing presses run about $160,000. In addition, John Evans, at Sterling C. Sommer, says using substitutes for isopropyl alcohol will require retrofitting of his presses with ceramic rollers, which cost $20,000 each to install, or about $120,000 per press.

Companies that are sources of air emissions will have to obtain construction and operating permits from their states under the auspices of the federal EPA. Small businesses will have to apply for permits at least every five years and file compliance reports every six months if they emit more than 100 tons per year of any ozone-forming pollutant deemed excessive in their air-quality region. A firm also will have to apply for permits and file reports if it is a "major" source of hazardous air pollutants.

> **Because they're small, and because economies of scale aren't as great, the costs [for small firms] are going to be disproportionately larger.**
>
> —Mary Bernhard

Permit applications and compliance records will demand detailed accounts of a firm's whole operation, says Theresa Pugh, director of environmental quality for the National Association of Manufacturers, in Washington, D.C. Pugh says that regulators will want to know about all the products a firm produces, the materials needed to make the products, hours the materials are in use, each person supervising the plant or production at specific times, ventilators in operation, flow rate per hour of solvents, and so on.

Such permits may hinder a company's ability to retool quickly from product to product. Each batch change now will require another set of extensive permits, and they have to be refiled every six months, says Pugh.

Ira Dorfman, a vice president at the American Bakers Association, in Washington, says the permits will allow bakers "much less flexibility" to alter production according to demand.

"The product line changes quickly" in bakeries, Dorfman says. "If we have to start operating under assumptions of which product causes what emissions, it's slowing down [bakers'] response time."

Pugh says the permits also will require information about a firm's pollution-control equipment, such as its budgeting, purchase, delivery, installation, testing, and retesting of pollution-abatement devices. "The cost of pollution control is very high," says Pugh.

Economist Alan Bernstein, at CONSAD Research Corp., in Pittsburgh, helped compile a study of small firms' costs in obtaining air-quality permits. He says a firm might spend $10,000 to $15,000 collecting emissions data and completing paperwork for just one set of permits for its plant. Continuous monitoring equipment, which would be needed to track emission rates, costs from $10,000 to $50,000, he estimates. In addition, there are the costs of workers who must run the equipment. "These are not insignificant costs," says Bernstein.

Added to these costs are a firm's emission fees; the EPA has set a minimum of $25 per ton of every regulated pollutant that a firm emits, with a cap of $4,000 per year.

Civil penalties for breaking the clean-air law are as high as $25,000 per day for each violation.

Willful or negligent releases of hazardous air pollutants will be considered felonies that can cost a business owner 15 years in prison and up to $1 million in fines for the business.

Knowingly omitting information on permit applications or reports, failing to report, or failing to monitor emissions can bring two years' imprisonment as well as a $250,000 fine. A business could be fined up to $500,000 for false reporting.

The new Clean Air Act does require states to set up assistance offices to help small companies with their clean-air paperwork and compliance. To qualify for such help, a company's owner must employ no more than 100 people; the firm must not be a "major stationary source" of emissions under the urban-smog portions of the law; it must not give off 50 or more tons per year of any regulated pollutant; and it must give off less than 75 tons per year of all regulated pollutants.

Evans says such help for small businesses in complying with the clean-air law "will be the key to success of the act."

Many business owners don't know what emissions their plants give off or how to control them, Evans says, and many are "still doing a lot of wondering" about the effects of the Clean Air Act amendments and are searching for clearer answers. NB

INTERNATIONAL ECONOMY

A Road Map For Bulgaria

A U.S. Chamber affiliate drafts a plan for Bulgaria to build a market economic system.

Unlikely though it may seem, some of the leading free-market conservatives who helped then-President Ronald Reagan formulate and implement his supply-side economic policies are now helping newly democratized Bulgaria adopt those same principles.

Spearheading this effort are Richard W. Rahn, vice president and chief economist of the U.S. Chamber of Commerce, and Ronald D. Utt, vice president of the affiliated public-policy research organization, the National Chamber Foundation. Both are well known in America as proponents of the low-tax, pro-growth, minimalist-government economic policies that became known as "Reaganomics."

In fact, Utt left the Chamber for a time to head Reagan's efforts to privatize many federally owned resources and functions.

Rahn and Utt began gaining visibility in Eastern Europe while contributing to Hungary's pioneer efforts to thrust free-market policies into the breach created by the collapse of that nation's centrally planned economy.

While in Hungary on a speaking engagement last spring, Rahn was asked by the Bulgarians to assemble a team that could formulate a "comprehensive series of policy recommendations" for rebuilding the ruins of the old socialist system into a market system based on supply-side principles.

Rahn agreed, and over the following six months the project moved forward. The team was assembled, plans were drafted and rewritten, and economic and political figures from Bulgaria and the United States exchanged working visits. The culmination was a 600-page document titled the "Bulgarian Economic Growth and Transition Project."

The plan's premise is that "other nations ... far less endowed in resources than Bulgaria have rapidly recovered from economic disaster given the benefits of an unfettered market economy." In the view of the plan's authors, achieving such a marketplace in Bulgaria means:

- Privatizing more than 2,200 state enterprises, farms, and small trade and service establishments.
- Reforming monetary, banking, and tax systems.
- Removing impediments to private enterprise, including barriers to international trade and restrictions on investments.
- Reforming social welfare, environmental, and education programs.

Rahn says executing this project was "the most fascinating thing I have ever done in my life." But he stresses that it was far more than an intellectual exercise: "Since its founding, one of the missions of the U.S. Chamber of Commerce has been to promote free-market democratic capitalism throughout the world. Why? American business gets stronger as the world economy gets stronger: Economic growth is not a zero-sum game."

All of the major political players in Bulgaria—including former Communists who have renamed themselves socialists and have won a majority in the legislature—embraced the U.S. team's plan, and legislation to help bring about changes had started taking shape.

PHOTO: LARRY LEVIN

U.S. Chamber's *Rahn presents an economic-reform plan to Bulgaria's President Zhelev.*

"We are firmly committed to implementing changes [suggested by the U.S. economic team] to effect the free-market transition as quickly as possible," says Zhelyu Zhelev, the top-ranking official of Bulgaria's executive branch of government. "I firmly believe that the transition will be successful because we have had the help of the excellent team headed by Dr. Rahn." Zhelev, whose title is president, is a member of the reformist political party called the Union of Democratic Forces (UDF).

Several political and economic crises have since erupted, however, relegating that enabling legislation to the back burner.

Chief among those disruptions has been Saddam Hussein's invasion of Kuwait, the ensuing international trade embargo aimed at Iraq, and the war in the Persian Gulf.

Bulgaria's economic situation had been grim even before the embargo and the war, because ousted Communist dictator Todor Zhivkov had saddled the country with worthless currency and nearly $11 billion in foreign debt.

To make matters worse, Iraq was Bulgaria's second-largest trading partner, mostly under an arrangement that had oil flowing from Iraq in return for manufactured goods and farm products from Bulgaria. Thus far, the trade interruption has cost the Bulgarian economy roughly $2 billion, about 20 percent of its gross domestic product.

Moreover, Bulgaria's largest trading partner is the Soviet Union, whose economic chaos currently rivals that of Bulgaria. Making that situation still worse is the fact that since this past Jan. 1, the former Soviet satellites have been required to trade in hard currencies—rare commodities in Bulgaria these days.

The sum total of Bulgaria's trade chaos is high unemployment, still higher inflation, and shortages of everything from fuel to food to toilet paper.

Although Bulgaria has had to seek $3 billion of aid from the International Monetary Fund and may seek help from Western nations to weather its current economic crisis, Rahn and his colleagues are convinced that the nation's long-term prognosis is good.

"I tend to be optimistic, though I don't have a lot of empirical evidence to back that up," Rahn says.

He bases his optimism on Bulgaria's "good climate for agriculture and great tourism potential—the country has great scenery, nice resorts on the Black Sea, and super archaeological sites." But Bulgaria's "biggest attribute," Rahn says, "is its own people. They're warm and open, they're well educated, and above all they're determined to succeed." NB

LESSONS OF LEADERSHIP

What Does A Smell Look Like?

Patti Upton's answer to that question spawned a $21 million company called Aromatique.

By Michael Barrier

When you drive up to a certain small factory in Heber Springs, Ark., you may be taken aback by the sign out front that advertises the prices the company pays for some of its raw materials. The going rates are 35 cents a pound for sweetgum balls, 20 cents a pound for hickory nuts, and 45 cents a pound for small pine cones.

Another sign elaborates: "All items must be clean, not wet, not sprouting, not green. Thank you, good hunting."

Says Sandra Horne, 47, one of the company's three owners: "It used to say, 'Save some for the squirrels.' I don't know what happened to that part."

However whimsical the signs may sound, Aromatique, the 8-year-old company behind them, is solid and real—so solid that its revenues last year totaled just short of $21 million. Consumers in the U.S. and 24 foreign countries paid around $40 million at retail for its products.

Aromatique makes 11 lines of what it calls decorative room fragrances—scented mixtures of wood chips and "botanicals," which may include, depending on the line, those nuts, sweetgum balls, and pine cones, or perhaps dried roses, bougainvillea, winter wheat, or some combination of about 100 other things.

The unwary might be tempted to apply the label "potpourri" to Aromatique's products, but Aromatique's owners reject that label fiercely. They insist they're making something different.

They are, although the difference may be more of degree than of kind. Potpourri, in the form of scented mixtures of dried flowers, has been around for centuries, and by the late '70s, at least, some commercial potpourris had "chunky" ingredients like those that Aromatique favors. But the difference is a large one, even so.

Aromatique has come up with products that are far more appealing than most potpourris—more appealing to the eye, because they combine colors and textures so artfully, and more appealing to the nose, because they smell like good perfume, with no chemical taint.

Take the product called Smell of Peach, a mixture of wooden "peach slices," white flowers, dried peach pits, leaves, and wood chips. Put a bowl of it in a room, and the room fills with a soft, rich scent that is unmistakably like peaches. (The wood chips play a critical role, because they absorb the scented oils that provide the smell.) Aromatique has calculated the visual effect as carefully as the smell: A tag instructs the purchaser to slit the *bottom* of the cellophane bag holding Smell of Peach, so that the mixture will fall out in layers, with the most attractive elements on top.

PHOTO: ©WESLEY HITT

Arkansas entrepreneur *Patti Upton uses dried "botanicals" like these to compose her products.*

Other lines, bearing such names as Smell of Spring, Nuts About Apples, and Smell of Gardenia, are equally distinctive in look and smell. Gentleman's Quarters—the first of Aromatique's decorative fragrances to be aimed specifically at men—is composed of what the company calls "rugged, exotic botanicals," and it smells like a classy after-shave.

In sum, Aromatique's products are stylish, imaginative, and assertive—just like the company's founder, Patricia P. Upton.

Patti Upton, 52, dresses and carries herself like the model she once was. She speaks with a strong Arkansas twang—she was born in Jonesboro, in the northeastern corner of the state, and still calls West Memphis "home"—and she is an Arkansas chauvinist, to the point of comparing the view from her lakefront house near Heber Springs to the ocean views from the Hawaiian island of Maui (she gives Arkansas the edge). But she is in no way a rural innocent.

She has never had to worry about money—she grew up in one prosperous family and married into another—and she has had the time to hone her judgment in matters of fashion and taste. "I do have a good eye," she says, "and I'm certainly not afraid to try things." Aromatique probably owes its existence to that willingness to experiment—and to Upton's restlessness in Heber Springs.

Heber, as the locals call it, is the hub of a recreational area around a large man-made lake. Upton and her husband, Richard H. Upton, who is 51, built a large weekend home on the lake, and Patti and their twin sons eventually spent most of their time there, while Dick commuted back and forth by helicopter to his beer distributorship in West Memphis. Living in Heber was a mixed blessing, Patti says—it was a good place for the boys to grow up, but

"the hills can get lonely. Heber is not a real lively town."

In the early '80s, she struck up a friendship with Sandra Horne, who owned a gift shop called the Browsing Post. "She let me play and have a good time and fluff things up," Upton says. Then Horne said to her: "Why don't you do something new for the shop for the holidays?"

It was the fall of 1982, and Upton noticed "all the lovely things on the ground—pine cones and gum balls. They kind of mesmerized me, so I put them in a large bowl and added some green bay leaves. I thought, wouldn't it be good if it smelled." Using cooking oils—cinnamon, cloves, and the like—she mixed a scent to add to her natural ingredients, and put the scented bowl in the shop.

While Upton and Horne were out antique-hunting, Horne called to check on the store, and she learned that customers wanted to buy Upton's concoction. At Horne's suggestion, Upton made up cellophane bags of it to sell. "That fast," Upton recalls, "they were gone."

Upton knew that she had something; the next step was to get her product into other stores. In the early '80s, Upton says, "it was very, very voguish" for women of means "to have a little antique shop or gift shop. I knew a lot of people, and Sandra knew a lot of people." Her calls to her friends usually weren't taken seriously, Upton says; when she described her product, "they would just crack up. 'Whatever you say, Patti, just send it.' Then *they* got excited about it."

By the end of the Christmas season, Upton had sold 3,500 bags, through 10 stores—and her husband was ready for the operation to move out of the Upton kitchen. Not only was the smell overpowering, but there were also quality-control problems: Dick Upton recalls that one customer returned a bag because it had a potato chip in it.

Early in 1983, Patti moved her new business into a small building in Heber Springs and incorporated; for capital, she had a few thousand dollars that she had received as a bequest. Horne agreed to run the company in exchange for 25-percent ownership. (The Uptons own the rest, and Dick Upton still has his beer distributorship; Horne's husband, an insurance agent, is not involved.)

At Horne's insistence, and over Upton's objections—"I looked at Sandra and said, 'Honey, you can't catch lightning in a jug twice' "—Upton came up with a second product, the hyacinth-scented Smell of Spring. Lightning *did* strike twice; a buyer for Colonial Williamsburg heard about Smell of Spring and put it into CW's stores. By the end of the year, and another round with the holiday product, by then called Smell of Christmas, Aromatique had more than 300 accounts, and both Uptons found themselves devoting far more time to the company than they had anticipated.

Suddenly Aromatique was growing almost too fast for its own good. Patti Upton and Sandra Horne themselves kept one foot on the brake, though, by sharply restricting the number of outlets. "Every week," Dick Upton recalls, "we would get at least 50 shops wanting to buy, and they would throw 40 of them into the wastebasket." Aromatique sold only to upscale gift shops, whose customers were willing to pay relatively high prices for quality. "We wanted our accounts to be stores that we would enjoy going to visit," Horne says.

It helped, too, that the Uptons and Horne fell into roles that complemented one another perfectly.

Patti Upton was the innovator, and her good taste was critical to each new product's success, but she recoiled from dealing with the grubbier business realities—what she calls "little figures." Horne brought to Aromatique a knowledge of retailing and an attention to detail that was, Dick Upton says, "the exact opposite of Patti." For his part, Dick provided a vital knowledge of finance, and of business practicalities, that he had gained from running his Anheuser-Busch distributorship in West Memphis. Says Horne: "He knew how much warehouse space we needed, how many forklifts we needed. Patti and I wouldn't have thought about that until we were out of space."

PHOTO: ©WESLEY HITT

Upton and co-owner Sandra Horne—*seen here in Aromatique's Heber Springs store—focused from the start on sales to upscale gift shops.*

Together, Aromatique's three principals could cover all the bases—product development, marketing, customer service, logistics, and so on—that so many budding entrepreneurs find difficult to cover adequately by themselves. (One measure of their compatibility: The two women share an office—and one large desk—and Dick's office opens off theirs.)

Because Aromatique was not building up its stock to serve large accounts, it went for a long time without needing bank loans to finance inventory; and when it did need a loan, it was only because demand for Smell of Christmas had grown so large that Aromatique had to start making it in the spring. By that time, banks were eager to lend.

Likewise, Aromatique shunned the big retail chains—"the majors"—for so long that eventually some chains were all but begging Aromatique to sell to them, and offering ironclad assurances that its products would be properly displayed. Even then, Aromatique moved into chains like Bonwit Teller and Neiman-Marcus only to head off a flood of imitators: "It was almost like they were good enough to be there and we weren't," Patti Upton says.

The move into the "majors" created problems as well as solved them, because Aromatique suddenly had to figure out how to make a lot more of its products. Until then, the company had really been an overgrown cottage industry, whose employees mixed ingredients by stirring them in barrels.

The Uptons enlisted the aid of her stepfather, J.A. Pulliam, who, as a hog and cattle farmer, "had spent his entire life handling large quantities of materi-

als," Dick Upton says. Pulliam modified and combined existing machines to meet Aromatique's special needs, so that, for example, wood chips could dry in heat from their own burning residue.

Aromatique occupies four sites in Heber Springs, with construction about to begin at a fifth; it has about 400 employees, a total that swells to 500 or more in the months before Christmas. It remains an easygoing place—"we do our test marketing in one or two hours, walking down the hall and letting the secretaries smell the fragrance," Dick Upton says—but it is vastly different from the just-for-the-fun-of-it sideline that Patti envisioned in 1982.

Now Horne and the Uptons fly around the country in their own King Air, visiting customers and suppliers. Aromatique's steady focus on upscale stores and elegant, high-quality products has paid off in a glamorous image—Aromatique bags have been party favors at the White House, and last year the company launched a new line, Smell of Honeysuckle, that bears the imprimatur of the celebrated interior designer Mario Buatta.

Local people still gather pine cones to bring to Aromatique's scales, but now such raw materials arrive in large quantities from surrounding states, too. Says Patti Upton: "Anyone who says it's the Boy Scouts, honey, hang it up. We will certainly buy from them, and love to do it, but we're talking big business."

Upton has made a transition that some women may regard as the stuff of fantasies: She stayed home, as a wife and mother, until her children were grown, and then, in her 40s, launched a wildly successful "big business" of her own. "I'm not going to call myself a housewife," she says, "because I never was. I was pampered and I was spoiled, and I could flit and fly and have a wonderful time. Then, all of a sudden, I became a business person, and I worked morning, noon, and night. My whole world turned and changed. This came at the perfect time in my life. I don't have time to think about getting older."

But, she says, it could never have happened earlier; motherhood may mix with a 9-to-5 job, but not with a "super career" like hers. "My boys, even in college, were a little jealous of Aromatique: 'All you do is talk about Aromatique.' Well, they didn't need me then, and I didn't mind saying, 'I'm sorry, I can't.' "

You can have it all, she says, but you can't have it all at once: "You have to make some commitments. If you want to have children, you can't expect to have that same schedule of 12 hours a day of work, or your child will suffer, some way or another."

NB

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Phyllis M. Barrier

What To Do When You Want To Gain Weight

Many of you feel dismay when you step on the bathroom scale and see it pop up to 10 or more pounds above your ideal body weight. But what if the scale stops too far below that ideal weight? For a significant minority, this is a real problem.

Betty J., for instance, is a ball of fire at the office. Always on the run, she is the envy of her co-workers, who think she can eat anything she wants and still remain thin and attractive. She suffers one of the frustrations of underweight people: They are envied by others and don't get any sympathy. They can't get much expert help either because so little research has been done in this area.

In contrast with obesity, being underweight usually doesn't lead to life-threatening problems.

It does lead to problems of many kinds, though. Underweight people can easily get chilled or fatigued, for example, and they have increased susceptibility to infection. Beyond such health problems, they have trouble getting clothes that fit, and they often feel unattractive.

What are some of the causes of being underweight? If you come from a thin family, most likely your thinness is inherited. Such people have the most difficulty gaining and maintaining weight. Other possible causes: smoking, depression, loneliness, too little rest, poor eating habits, skipped meals, demands of your schedule that take time away from preparing or eating meals.

In other cases, these can be the reasons that people are *over*weight. It all depends on our attitudes toward food. Some of us are "food-oriented" and think constantly of our next meal or snack; we use food to appease ourselves. Then there are those underweight people who are not food-oriented and who forget food completely if something comes up.

Betty J. won't eat solid foods for a couple of days if she has an upset stomach, whereas a food-oriented person will try to eat tea and toast, and a regular dinner that very day if at all possible.

If you have recently lost weight without trying and for no known reason, you should have a medical checkup to make sure there is no underlying medical problem. But if you have been too slender all your life, there are steps you can take to gain weight.

PHOTO: ©DAVID WOODS—THE STOCK MARKET

For some, *the scale tells its bad news by showing a low weight.*

To gain one pound, you must eat 3,500 calories more than your body burns up. If you set a goal of gaining one pound a week, you would need to eat 500 extra calories a day. It would be more realistic to try for one or two pounds a month (an increase of about 250 calories per day). Gaining weight and maintaining that higher weight must result from permanent changes in your lifestyle.

Just as in any weight *loss* program, maintaining your desired weight, once you've reached it, can be the hardest part.

Before you start, it's a good idea to keep food records for at least three days to see where you need to make changes. Look most closely at these possible problem areas:

- Are you eating three meals a day consistently?
- Are the meals well balanced?
- Are you eating any snacks between meals?
- Are you eating fats (the most concentrated source of calories) such as mayonnaise, salad dressings, vegetable oils and margarines, nuts, avocados, and peanut butter? Even if you're trying to gain weight, it's a good idea to eat unsaturated fats like these and avoid saturated fats—primarily animal fats—which have been implicated in heart disease.
- Are you eating enough high-calorie starches—potatoes, rice, pasta, dried cooked beans and peas, or a variety of breads?
- Are you avoiding foods that are bulky but low in calories and so fill you up quickly, such as clear soups, low-calorie vegetables, and salads?
- Are you drinking no-calorie liquids—diet sodas, for example—that quickly satisfy your appetite and leave little room for adequate calories?

After you've analyzed your food records, follow the guidelines below that seem to apply to you:

- Always eat three meals a day.
- Eat snacks two or three hours before meals, so they won't ruin your appetite. Start with a high-calorie bedtime snack, then add snacks—one at a time—between meals.
- If you drink alcohol, remember that a glass of wine before a meal can stimulate your appetite.
- Build your meals around unsaturated fats and high-calorie carbohydrates. You can buy calorie books that will identify high-calorie foods.
- Exercise moderately—don't go overboard, or you will burn more calories than you eat.
- Get plenty of rest. Many thin people, like Betty J., are constantly on the move, rarely relax, and sleep poorly.
- If you smoke, quit.

Whatever changes you decide to make, you should make them slowly and adopt them as lifelong changes.

Otherwise, you'll be like your overweight co-workers who diet and lose 10 pounds and then return to their old habits and gain the 10 pounds back—except in your case, the process will be in reverse. NB

Phyllis M. Barrier is a registered dietitian and nutrition coordinator for a Washington-area health-maintenance organization.

For Your Tax File

What you need to know to keep taxes from overtaxing you.

By Albert B. Ellentuck

BUSINESS STATUS

Avoid The Hobby Label

With the present business climate so bleak, it's bad enough for an enterprise when it loses money, but when the Internal Revenue Service comes along and labels it a "hobby" instead of a business, it's a double whammy for the owner.

If a business is considered a hobby, expenses of that business are deductible only against the income from that business. Losses from the hobby can't be offset against the taxpayer's other income. Thus, any business that is losing money is at risk for this type of treatment, although the IRS gives even closer scrutiny to second businesses and businesses with an element of recreation, such as stamp collecting or crafts.

There is a presumption that if a regular business has earned a profit in three of the past five years, it will not be considered a hobby. In the current economic downturn, however, many firms may not qualify for the presumption and may have to prove that their intention is to make a profit.

A recent case may be of some help to a business person who owns real property that has risen in value. The case involved a man who had a horse-breeding business that ran at a loss and thus did not qualify for the presumption. (For horse breeding, the test is five out of seven years.) However, the farm where he bred the horses had grown considerably in value, and he argued that this showed a profit motive.

PHOTO: C.H. CORFER—UNIPHOTO

Land ownership *could help a firm contend that it's in business for profit.*

The IRS believed the land was a separate investment, however, and not part of the horse-breeding business or of the horse breeder's profit motive. But the U.S. District Court in Connecticut agreed with the businessman and ruled that ownership of the land could be considered part of the horse-breeding operation. Therefore, the appreciation in the land value would support a taxpayer's assertion of a profit motive.

This decision could be important for any business that owns its own real property and is affected by the recession. Although the IRS will probably continue to contest this issue, business people in this situation should be aware of this argument, which provides some hope of avoiding the hobby label. ■

HOME OFFICES

A Pool Arrangement

Is it possible to claim a swimming pool used by business associates as part of the home-office deduction? The question arose in the case of an Alaska lawyer. She had her law office in Anchorage and also saw clients at her home about 50 miles away. At home she had a heated swimming pool enclosed in a solarium. The facility was used by her clients, their families, her office staff when they worked at her home, and occasionally by the lawyer herself. On her tax returns the lawyer deducted depreciation on the swimming pool and the enclosure as part of an office at home; the Internal Revenue Service disagreed.

Tax rules allow deductions for an office in the home only if it is used exclusively on a regular basis as the principal place of business or "as a place of business which is used by patients, clients, or customers in meeting or dealing with the taxpayer in the normal course of his trade or business."

The IRS argued that the swimming-pool facility was not used exclusively as a place of business to meet with clients since the use by clients and their families was primarily recreational. The U.S. Tax Court denied the deduction.

If the lawyer had had a medical problem, however, she may have qualified for a deduction for maintaining and operating the facility as a medical expense if it had been acquired under a doctor's orders. ■

Tax specialist Albert B. Ellentuck is a partner in the Washington law firm of Colton and Boykin. Readers should see tax and legal advisers on specific cases.

INTEREST

A Vanishing Deduction

On your 1990 return, you can deduct 10 percent of any "personal interest" you paid last year. But you cannot deduct any interest that you pay this year. Thus, any interest payments on your credit cards, car loans, cash advances, or other consumer borrowing will not be deductible on your 1991 return.

However, interest paid on your home mortgage is deductible. If you have a significant amount of personal loans outstanding, this is a good time to consider taking out a home-equity loan and paying off your personal debts. As interest rates drop, this option becomes even more attractive. The limit on this type of financing is $100,000.

Keep in mind that with this kind of financing, your home is now at risk; make sure you will have the necessary funds to make your increased mortgage payments. NB

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

EXPORTING

A Route To Japan

One of my clients is a Japanese firm interested in importing products made by small U.S. businesses. It is hard to find small businesses interested in exporting to Japan and not already doing so. Can you help?
M.C., Atlanta

Finding potential exporters within the small-business community "presents a definite challenge," says Rachel Bailey, trade specialist at the Atlanta district office of the International Trade Administration (ITA), a part of the U.S. Department of Commerce. The international-trade professionals we contacted suggested you spread the word among firms in your area about your search and make cold calls to small businesses to ascertain their interest in exporting.

ILLUSTRATIONS: DAVE ALLEN

You also may find it helpful to write or call Bailey. She can offer you contacts among the Japanese trading companies in Atlanta and can make statistical information available to you. She can be reached at the ITA, 4360 Chamblee-Dunwoody Road, Suite 310, Atlanta, Ga. 30341; (404) 452-9101.

INVENTIONS

Kids' Stuff

I have designed a child's item that is unique, and I want to know where to begin searching to make sure it has not already been invented.
M.R.B., Arlington, Va.

A good place to look is the Patent Search Library of the U.S. Patent and Trademark Office. Each state has a search library, which contains files on every patent issued by the office. If a similar product has been invented and patented, you will uncover it there. The search library nearest you is at 2021 Jefferson Davis Highway, Crystal Plaza 3, Lobby Level, Arlington, Va. 22202; (703) 308-0595. It is open 8 a.m. to 8 p.m., Monday through Friday.

A U.S. Patent and Trademark Office brochure, *General Information Concerning Patents*, gives an overview of the patent procedure, including forms for a do-it-yourself patent application. To order, send a $2 check to the U.S. Government Printing Office, Washington, D.C. 20402. Ask for stock No. 003-004-00634-0.

ASSOCIATIONS

Part-Time Tools

Is there a trade association for tool and equipment rental stores?
B.F., Fort Thomas, Ky.

An organization that might fill the bill for you is the American Association of Equipment Lessors. This group offers seminars and workshops on principles of leasing, financial transactions, credit practices, and other topics that are relevant to your industry.

Write or call the association at 1300 N. 17th St., Suite 1010, Arlington, Va. 22209; (703) 527-8655.

FRANCHISING

Women's Perspective

Is there an organization devoted exclusively to women interested in franchising?
M.E.A., Merrimack, N.H.

To our knowledge, the only organization devoted exclusively to helping women enter franchising is Women In Franchising. Susan Kezios, the organization's president, offers seminars across the country throughout the year on the basics of owning a franchise and on questions that arise in franchising.

For a seminar schedule and more information, write or call Kezios at Women In Franchising, 175 North Harbor Drive, Suite 1311, Chicago, Ill. 60601; (312) 917-1705.

HORTICULTURE

Tom Thumb Trees

I want to develop a nursery business that specializes only in bonsai Japanese plants. Where can I find wholesale dealers in the U.S. or in other countries such as Taiwan, China, or Japan?
J.K., Roseville, Calif.

By definition, bonsai is a method of dwarfing and shaping trees and shrubs in small pots; it is not an actual *variety* of plant, says Virginia Ellerman, business manager for Bonsai Clubs International.

"You can bonsai any type of tree,"

Ellerman says, "so it's a matter of learning a method of growing."

Among the organization's 3,700 members are nursery operators who offer starter plants.

True bonsai trees are raised outdoors, says Ellerman, so the plant is subject to the four seasons. Bonsai plants that are offered in catalogs, she says, are raised indoors.

Membership in the organization costs $18 a year and includes a subscription to *Bonsai Magazine*, published six times a year, as well as a booklet, *Bonsai Sources*, which lists U.S. nurseries that handle bonsai trees.

For more information, contact Ellerman at Bonsai Clubs International, 2636 W. Mission Road, No. 277, Tallahassee, Fla. 32304; (904) 575-1442.

For information that is specifically aimed at bonsai enthusiasts in your state, contact Marybell Balendonck of the Golden State Bonsai Federation, 3132 Quartz Lane, Fullerton, Calif. 92631.

START-UPS

Woods Work

My husband wants to start a logging business, and he needs information on fuel taxes, road taxes, and any other applicable costs. Can you help?
J.C., Baxley, Ga.

There are more than 25,000 logging companies nationwide, says Neil Ward, communications manager for the American Pulpwood Association. Ward says the standard definition of a logging business is "an independent contractor who sells wood on the open market."

Start-up costs for a logging enterprise can be as little as "two chain saws and a pickup truck to over $250,000," says Ward. A logging company may employ one worker or several dozen.

Information on employment laws and logging-industry taxes is available in the association's 150-page book, *How to Stay at Peace With Your Government.* It sells for $20 to nonmembers. To order, contact Ward at the American Pulpwood Association, 1025 Vermont Ave., N.W., Suite 1020, Washington, D.C. 20005; (202) 347-2900.

For facts on logging in your area, contact the Georgia Forestry Association, Inc., 500 Pinnacle Court, Suite 505, Norcross, Ga. 30071-3634; (404) 416-7621.

Where There's Smoke

I would like to start a business selling cigars, cigarettes, and tobacco accessories. How do I get started?
J.B.S., Cary, N.C.

Bill Fader, managing director of the Retail Tobacco Dealers of America, says he can help you. The association and its members have listings of all major suppliers to the retail tobacco industry.

You may also want to attend the association's annual trade show, which gets representation from most of the suppliers in the industry. The next show will be Aug. 21-24 in San Francisco.

Membership in the Retail Tobacco Dealers of America is $50 per year for an established retail store. For more information, write or call Fader at the association at 107 East Baltimore St., Baltimore, Md. 21202; (301) 547-6996.

Driving Ambition

I would like to start a monthly automobile magazine specializing in a certain sports-car line. Please direct me to any information on this type of venture.
S.E.N., York, Neb.

Betty Wright, director of the National Association of Independent Publishers, says starting an independent magazine is "a very tough row to hoe." Wright estimates that you will need at least $50,000 to start the process of building a circulation and paid-advertising base.

For more information, write to the National Association of Independent Publishers, Riverside Drive, Box 850, Moore Haven, Fla. 33471-1069.

Sending A Message

Could you give me information on starting a greeting-card line?
K.W., West Warwick, R.I.

The Greeting Card Association offers a variety of materials, including a $40 publication, *Starting a Greeting Card Business*, which contains information on legal matters, business planning, financing, marketing, and distribution. The

Greeting Card Industry Directory, at $50, lists names and addresses of greeting-card companies and is cross-referenced by location, product types, brand names, and key personnel.

To order, or for more information, write or call the Greeting Card Association at 1350 New York Ave., N.W., Suite 615, Washington, D.C. 20005; (202) 393-1778.

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

THIS MONTH'S MOST-ASKED QUESTION

Incubating A Business

Our mailbox this month was full of questions from readers interested in knowing more about small-business incubators—a way to start up without going it alone.

Incubators are organizations that provide a newly established small business a location for the enterprise and various support services designed to increase its potential for success. There are nearly 400 small-business incubators in the U.S. and Canada, according to the National Business Incubation Association (NBIA).

An example of a business nurtured in an incubator is Steve Mueller's fledgling wood-manufacturing and desk-design business, Agati, Inc. It began in 1987 as part of the Chicago-based Fulton Carroll Center for Industry, an incubator, where he is still a tenant.

"I could not have done as well as I have without the help of the center," says Mueller. As an incubator tenant, Mueller receives flexible office space to allow for business growth or reduction, below-market rent, office-support services, free consulting on any business problem, a revolving-loan program to provide working capital, and referrals for banks and customers. Mueller says an incubator can give a start-up "a 5 or 10 percent better chance of succeeding, and that's a very significant amount."

A small-business incubator typically has an on-site manager who acts as a business counselor and is supplemented by a team of accountants, lawyers, and consultants. "Together they provide diagnostics and advice for self-absorbed start-up companies," says Peter Collins, director of emerging-business services at Coopers & Lybrand, a Philadelphia-based accounting firm. Incubators also rely on resources provided by educational institutions, public agencies, private firms, and other organizations. A start-up applies for admission to an incubator by submitting a business plan.

Funding comes from a variety of sources, including Department of Commerce grants, economic-development boards, private donations, and from rents and fees for incubator services.

The NBIA offers a state-by-state listing of small-business incubators along with other pertinent publications. For information, contact Joan Seder at the NBIA, One President St., Athens, Ohio 45701; (614) 593-4331. ■

Where I Stand

On MANDATED BENEFITS

We want your views. Your response to this survey will give you a voice in the growing debate over employer-provided benefits to workers. Congress and the Bush administration will be notified promptly of your views. Make a difference by responding today.

Send the attached postage-paid reader response card. Or you can circle your answers, fill out the coupon, and fax this page to (202) 463-5636.

1. Proposals to require employers to provide specific amounts of job-protected leave to workers are:

1. Reasonable and should be enacted
2. An unreasonable government intrusion into management rights

2. Does your state have a mandatory-leave law that affects your company?

1. Yes
2. No
3. Not sure

3. A law requiring employers to provide designated health-care benefits to workers would:

1. Help my business by improving morale and productivity
2. Hurt my business through excessive increases in costs
3. Have no direct effect on my business

4. Does your state require businesses to provide specific health benefits to employees?

1. Yes
2. No
3. Not sure

5. Congressional moves to require employers to provide particular employee benefits are:

1. In the best interest of the nation
2. Moves that would intensify the recession
3. A worrisome trend toward increased regulation

6. In considering the benefit needs of employees, Congress should:

1. Enact laws to meet those needs
2. Hear employer and employee views and try to enact laws meeting concerns of both sides
3. Let employers and employees develop mutually satisfactory benefit plans

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It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

SHOPPING

Recession-Wary Shoppers Discover Outlet Stores

Factory-outlet stores make up one retail sector that gets heightened attention in an economic downturn.

"In a recession," says Bob Klein, a staff writer with the industry magazine *Value Retail News*, "people go out of their way to find outlet stores to save money."

Outlet-store mania actually started around a decade ago, during the previous recession. "It got going in Reading, Pa.," Klein says, "when factories closed down or cut back production." They converted empty space into retail stores to unload millions of dollars' worth of inventory overruns. "It really caught on," Klein says, "and is now expanding geometrically around the country."

For example, the main "industry" in Boaz, Ala., is block after block of outlet centers. Vanity Fair (jeans and other apparel) opened up a center, and now everybody is moving in.

During the previous recession, you could count the outlet centers on one hand, and they all were on the East Coast (Reading, Pa.; Fall River, Mass.; Kittery, Maine).

In this recession, you can find nearly 300 centers, with thousands of stores from more than 400 manufacturer-outlet chains.

PHOTO: T. MICHAEL KEZA

Outlet stores *thrive in bad times; this one is in Reading, Pa.*

Some stores that have the word "outlet" or "factory" in their name are not actually owned and operated by a brand-name manufacturer. These "off-price" stores offer an array of products that come mostly from manufacturers that do not have their own outlet chains. Prices tend to be higher because a middleman is usually involved. Among the better-known "off-price" stores are Burlington Coat Factory, T.J. Maxx, and Marshall's.

Some manufacturers use different names in outlet centers so as not to compete too directly with nearby department stores that carry their products. For example, Oshkosh B'Gosh, a manufacturer of children's clothing, uses the name "Genuine Article" in its outlet stores. Likewise, London Fog uses the name "London Town," and Izod Lacoste calls itself "Fashion Flair." Once you're inside the store, you can determine the identity of the name-shy manufacturer right away.

The Outlet Consumer Reporter, which is a subsidiary of *Value Retail News*, publishes *The Joy of Outlet Shopping*. It is a 150-page book that lists all of the true outlet centers around the country (as well as a few "off-price" stores) by state and region.

Listings include maps and detailed instructions on how to find outlet centers, along with the types of products they offer and sample discounts.

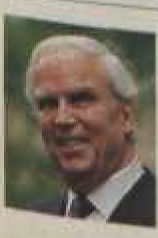
You can order the book from *Value Retail News*, P.O. Box 7870, St. Petersburg, Fla. 33734. The price is $5.95, including delivery. ■

INVESTING

Saving Money By Managing Your Own "Mutual Fund"

Prudent stock-market investors are always advised to diversify their portfolios to make sure that one or two bad picks won't put them out of business.

But buying a lot of different, good-quality stocks these days costs a lot of money, so investors seeking diversification tend to put their money in mutual funds that sell shares of their large portfolios at affordable prices.



Peter Weaver is a Washington-based columnist on personal finance.

John Slatter, who publishes *Slatter's Portfolio Digest* for Prescott, Ball & Turben, a Cleveland brokerage firm, has come up with a "mini-fund," a model portfolio that you can manage yourself without having to be a market-timing genius. Here's what Slatter suggests:

■ Limit your stock choices to those listed among the 30 Dow Jones Industrials (the average that's always quoted in your newspaper and on newscasts).

■ Pick the top 10 dividend payers. A broker can tell you quickly which ones have the best current dividend records.

■ Spread your investment capital as equally as possible among your top-10 stocks, and make your purchases all the same day.

■ Choose to have your dividends reinvested automatically in stock. Most, if not all, of your stocks will be issued by companies that offer such plans, which enable you to obtain additional shares without a broker's commission.

■ Exactly one year later, have your broker identify for you the top dividend payers among the Dow Jones Industrials. Usually, you'll want to drop the bottom two or three dividend payers from your list and replace them with stocks that have better records.

That's it. Everything is automatic. You don't try to outguess the market. You don't get sold off-brand, "hot" issues that fizzle. You pay an absolute minimum in brokerage commissions, and you don't have to pay fees to mutual-fund managers. You get a time-tested investment formula that mixes long-term growth possibilities with income (the current average rate is above 5 percent). And your portfolio is made up of blue-chip stocks.

Mind you, this formula, which Slatter

has researched over 10 years, is for the long haul. It's not a get-rich-quick scheme. "It doesn't work every year," Slatter says, "but it works on an average of two out of three, and most of the mutual funds don't do as well."

There is one catch. Slatter suggests investing at least $30,000, putting around $3,000 into each of your 10 stock picks. "If you start with much lower than that," he says, "broker's commissions begin to eat into profits."

You also have to decide how your mini-fund should be set up with your broker. You can manage things from your home, with stock certificates in hand, but it's a lot easier to have a broker handle the paperwork. And if you're setting up an Individual Retirement Account, Keogh, or 401(k) tax-deferred plan, you have to have your funds administered by a broker or some other such custodian recognized by the Internal Revenue Service.

When a broker administers your fund, you have a choice of having stocks held in your name "for safekeeping," or held in the brokerage firm's "street name" for your account.

If you choose the "safekeeping" route, you can sign up for the various stock-reinvestment plans.

If you have your stock listed under a street name, however, you can't use reinvestment plans. These can only be in your name.

"When dividends come in through a street-name account," according to Michael Roberts, a regional vice president for Prudential-Bache Securities in Bethesda, Md., "the money is swept into a money-market fund to earn interest." At the end of your portfolio-pick year, these extra funds will be sprinkled among your stocks as evenly as possible for the next go-around.

Which is the better method? "If you have a large portfolio [a lot more than $30,000]," Roberts says, "you're probably better off with stocks in your name and reinvestment plans, because your shares should build faster."

With smaller portfolios, he says, it doesn't make much difference which method you choose. The annual dividend earnings should be about the same. ■

CREDIT CARDS

PHOTO: ©HERTZ CORPORATION

Renting a car overseas *with a gold card brings different rules into play.*

Evaluating Credit-Card Car-Rental Insurance

If you have an American Express, Visa Gold, or MasterCard Gold card, you've no doubt felt more secure in refusing the rental-car companies' collision-damage-waiver (CDW) coverage, which can cost you an extra $10 to $15 a day. These card issuers provide their card holders with backup insurance coverage for damage to the rental car.

The card issuers' backup plans are not all the same, however. In the United States, most cards "provide secondary insurance coverage," says Geri Detweiler, a representative of the Bankcard Holders of America, a consumer-oriented organization. That means if your rental car is in a collision, you have to file a claim with your auto-insurance company (or your employer-plan's company) before the card issuer's coverage kicks in to pick up deductibles and other out-of-pocket expenses that your insurance doesn't cover.

"But the Private Issue Discover card is different," Detweiler says. "It gives you primary coverage." You file your claim directly with the Discover card's headquarters.

The Discover gold card does not cover you abroad, however. American Express, Visa Gold, and MasterCard Gold not only provide coverage out of the country but also provide primary coverage. You file your claim with their insurance offices, not with your insurance company.

Be sure to check out your card's rules on rental-car coverage. Some will include your spouse and unmarried, dependent children under age 22, and others won't.

Determine also whether the credit-card firm will let the rental-car company bill your account directly. With some, you have to pay the bill and wait for the reimbursement. And this can present some problems. If you have an accident, and if the damage to the rental car runs into the thousands of dollars, the damage can be charged to your credit card right away, before your insurance company reimburses you. You may exceed your credit card's line of credit and have to pay the overdraw in cash if you don't want to be hit with interest and penalty charges.

So it's a good idea to find out just how your credit card handles major claims. It's also a good idea to see where you stand on rental-car insurance on your own policy and your employer's policy. ■

AIR TRAVEL

How To Get A Handle On Lost Or Stolen Luggage

Although excess carry-on baggage can be a headache for airlines, it's understandable why many people don't want to part with their luggage when they fly. Lost or stolen baggage can destroy a long-awaited vacation or an important business trip, and filing claims for losses can be frustrating.

For domestic flights, the maximum liability for airline reimbursement is $1,250 per ticketed passenger, and all settlements (which can take months to resolve) are "based on the depreciated value of the contents listed on the form, not the original or replacement costs," says Ken Heldt, assistant editor of *Frequent*, a newsletter for frequent fliers.

Claims for lost, stolen, or damaged luggage on international flights are limited by the weight of the lost item. You get $20 a kilo, or around $9 a pound. With a typical 20-pound bag, this means the maximum you could get, on a depreciated basis, would be only $180.

Nonetheless, you can purchase "excess valuation" coverage from airlines at a cost of 50 cents to $1 per $100 of increased value. But many valuables are excluded, such as cash, cameras, radios, jewelry, business papers, and antiques.

To file a claim for lost, stolen, or damaged baggage, you must get an official form and fill it out before you leave the airport. Otherwise, it won't be accepted. All this soaks up gobs of valuable time and energy. ■

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COMMENTARY

Congressional Alert

A report on key legislative issues with suggestions for contacting Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510; U.S. House of Representatives, Washington, D.C. 20515.

Health Benefits

PHOTO: T. MICHAEL KEZA

Congress is expected to take a hard look this year at proposals to reform the U.S. health-care system. Some would compel employers to offer health-care coverage to their workers as a condition of doing business.

Currently, health-care benefits provided by employers are the major source of health insurance for workers and their families. Such benefits cover 147 million Americans.

Several of this year's major legislative proposals are likely to be based on the "pay or play" approach, recommended last year by the bipartisan Pepper Commission.

That approach would require employers either to provide specified health benefits or to pay a new payroll tax to finance a government-run health-care plan.

The U.S. Chamber of Commerce believes that mandates requiring employers to offer health-care coverage and governing the design or financing of benefit plans would force employers to reduce wages or benefits preferred by their employees. And such mandates may make health insurance too expensive for many firms.

A study by the Partnership on Health Care and Employment found that up to 3.5 million workers could lose their jobs if legislation to mandate health benefits is enacted.

Contact your representative and senators. Urge them to oppose government-mandated health coverage and to support alternatives that would make it easier for small businesses to offer health insurance.

Mandated Leave

Employers can expect another major congressional battle soon over mandated-leave legislation.

House and Senate leave bills introduced this year as H.R. 2 and S. 5, respectively, closely resemble legislation vetoed last year by President Bush.

The bills would require employers with 50 or more employees to offer up to 12 weeks of unpaid, job-protected leave annually for a worker's own serious illness; the birth, adoption, or serious illness of a child; or the serious illness of a dependent parent or spouse.

The measures also would require employers to continue health-insurance benefits for employees on leave.

PHOTO: T. MICHAEL KEZA

The U.S. Chamber of Commerce supports the current voluntary, flexible system that allows employers to offer benefits they can afford and that their employees prefer. Legislation imposing specific leave requirements would eliminate that flexibility and pose particular difficulties for smaller firms.

Under a mandated-leave law, businesses would incur increased costs resulting from reduced productivity and the hiring of replacement workers. Such a law also would force many employers to reduce or eliminate other benefits of potentially greater value to their employees.

Contact your representative and senators, and urge them to oppose mandated family/medical-leave legislation.

Managing Solid Waste

PHOTO: T. MICHAEL KEZA

Congress is expected to devote a lot of attention this year to reauthorizing the Resource Conservation and Recovery Act, the law that regulates the handling and disposal of solid and hazardous wastes. A driving factor in the debate will be the shortage of waste-disposal capacity facing many communities, partly because public opinion has made it politically difficult to establish new landfills and facilities for converting waste to energy.

The shortages of disposal capacity have already led to far-reaching, impractical proposals that proponents believe would reduce the amount of material destined for disposal. Some of these proposals would, for example, ban certain products, tightly regulate the ways that other products are produced and packaged, and impose mandatory recycling goals, even where markets for the recycled material have not yet developed.

The U.S. Chamber of Commerce supports federal efforts to provide guidance to state and local governments for developing integrated solid-waste management plans that include waste reduction, recycling, incineration, and the use of landfills.

However, the Chamber opposes counterproductive proposals—such as product bans—which could lead to increased waste and higher product prices and waste-disposal costs for consumers.

Contact your representative and senators. Urge support for solid-waste legislation that would ensure adequate disposal capacity without imposing impractical restrictions or bans on products.

Editorial

When You Strangle The Employer, You Also Kill The Jobs

Organized labor has embarked on a massive campaign to boost its shrinking ranks. Its key strategy is to persuade Congress to pass legislation giving workers the upper hand in bargaining with management.

The specific bill being pushed would bar employers from hiring permanent replacements for workers who go out on strike or walk off their jobs for virtually any reason.

Once unions win that advantage, they believe, they will have an important new incentive to offer prospective members—the right to strike for virtually any reason, justified or not, with no risk of losing a job. Because they want to use it as a membership inducement, labor leaders insist that the measure would apply only to union members.

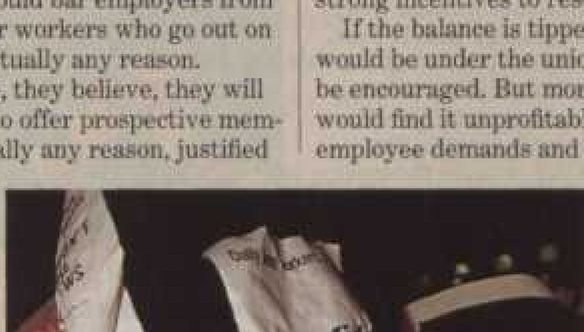

PHOTO: ©LISA QUINONES—BLACK STAR

The U.S. Chamber of Commerce and other business organizations fighting the bill point out, however, that giving strikers the right to return to work would clearly not be limited to union members but would apply to any company where two or more workers have a dispute with the firm.

Today, employees who strike are already entitled to automatic reinstatement in their jobs if their employer has engaged in an unfair labor practice, such as refusing to bargain in good faith.

But if employees strike over conditions of employment involving such things as wages, benefits, or work schedules, for example, employers have the right to hire permanent replacement workers. Even in such "economic strikes," workers who are permanently replaced are guaranteed significant preferential re-employment rights, such as the right to recall if the same job or an equivalent position becomes vacant.

This balance of rights—the right of employees to strike and the right of employers to continue operating by replacing them—has been a bedrock of U.S. labor law for more than 50 years. Each right involves risks. Employers risk their ability to keep their businesses afloat through the expensive, time-consuming process of hiring replacements, and employees risk losing their jobs to replacements. These rights and risks give both employer and employee strong incentives to resolve their differences.

If the balance is tipped in favor of the employees, as it would be under the union-backed legislation, strikes would be encouraged. But more important, many businesses would find it unprofitable to accede to potentially limitless employee demands and would be forced to terminate operations. And when the business goes, so do the jobs.

Organized labor is desperately seeking a major legislative victory to shore up a long, downhill slide marked by fading political clout and substantial loss of membership. Union membership peaked at 35 percent of the labor force in 1945, fell below 20 percent in 1984, and is now approaching 15 percent.

The labor strategy assumes that the timing is right for pressing the ban on striker replacements. With the U.S. in a recession and many businesses reducing their work forces, labor hopes that a legislative drive couched in terms of job protection is likely to be received sympathetically on Capitol Hill.

However, without the current, delicate bargaining balance between employers and employees, even more jobs would surely be lost and the economy further disrupted. The very jobs that unions are so concerned about protecting are at stake.

It's no wonder that the striker bill is a top labor-union priority. The freedom to walk off a job with no risk involved would be an appealing membership lure to offer a prospective union member. In considering the striker-replacement bill, Congress will surely realize a basic fact that appears to have escaped the labor leaders pressing for it: You aren't doing workers any favors by guaranteeing them the right to return to a job if it no longer exists. NB

Free Spirited Enterprise

By Janet L. Willen

ILLUSTRATIONS: SHARON COHEN

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The Sporting Life

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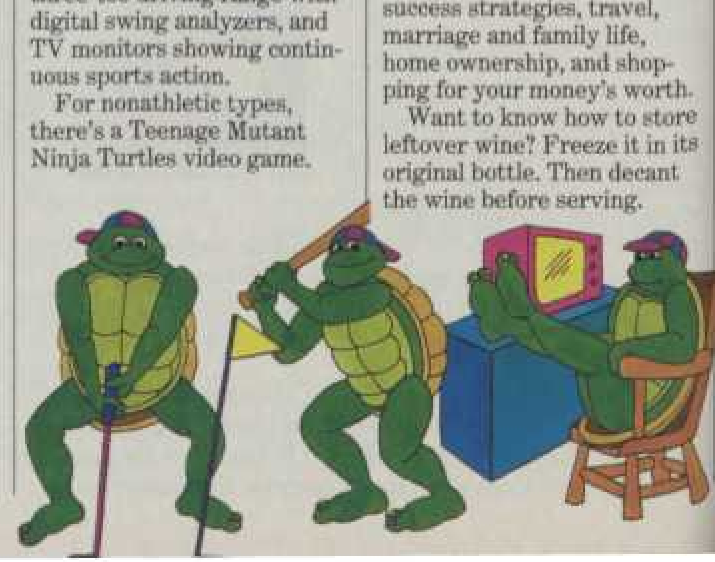

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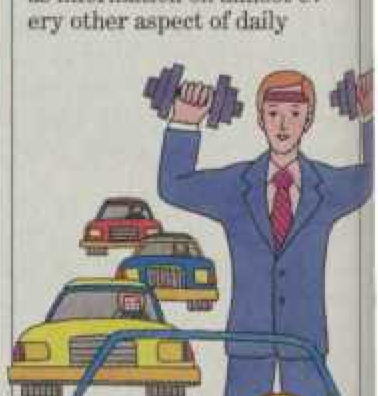

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